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Asian maelstrom threatens prices

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Ancient bones of contention

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Czech presidency

Havel – a question of influence

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World Business Newspaper http://www.FT.com TUESDAY JANUARY 20 1998

WORLD NEWS

Yeltsin storms back to Kremlin with an attack on ministers

Russian president Boris Yeltsin yesterday marked his return from a long holiday by publicly dressing down his most senior ministers. He rebuked his government for failing to pay civil service wage arrears in an aggressive performance calculated to damp speculation about his health and strengthen rumours that he may be planning a big cabinet shuffle. Page 16; US investors fail to win oil 'looting' audit, Page 2

Iraq's deadline rejected
Chief UN arms inspector Richard Butler rejected a deadline set by president Saddam Hussein for ending the disarmament mission in Iraq, saying the UN was determined to win access to suspected weapons sites. Page 6

Italy eases shopping rules
Italy launched reforms aimed at deregulating a rule-bound shopping culture which dictates how Italian shops can be set up, when they can open and what they can sell. Page 3

Syria warns on Turkey
Turkey's secular policies risk turning the country into another Algeria, Syrian defence minister Mustafa Tlas said. Background, Page 2

Serb ex-mayor on trial
Slavko Dokmanovic, Serb former mayor of Vukovar, went on trial at the UN war crimes tribunal in the Hague. The prosecution alleges he helped orchestrate the abduction and murder of hospital patients after Vukovar fell to Serb forces in 1991.

Communists urge action day
France's Communist-led CGT urged other unions to join it on a day of action on January 27 in support of government plans to cut the working week to 35 hours from 39.

Havel seeks re-election
Czech president Vaclav Havel, the former dissident playwright, is seeking re-election today. Page 3

Cohen shown secret centre
US defence secretary William Cohen was shown round a hitherto secret Chinese air defence centre. He also also signed an agreement designed to avoid accidents involving US and Chinese warships at sea. Page 4

China 'accepts UN visit'
China would welcome a visit by Mary Robinson, the UN High Commissioner for Human Rights, Britain's Foreign Office reported Chinese foreign minister Qian Qichen as telling his UK counterpart Robin Cook.

Zimbabwe price rises quashed
Zimbabwe's president Robert Mugabe ordered manufacturers to cancel a 21 per cent rise in maizemeal prices after the capital, Harare, was again disrupted by violent protests against recent food price increases. Page 6

Philippines attack
Armed men threw a grenade at the office of Petron, the Philippines' largest oil company, and shot at the headquarters of the Energy Regulatory Board in an apparent protest at a recent oil price increase.

Swine fever spreads
Swine fever has spread from one north German region to another, raising the probability of a EU export ban on the country's pigs.

Rock veteran dies
Carl Perkins, American rock 'n' roll pioneer whose song "Blue Suede Shoes" and guitar-playing influenced Elvis Presley and the Beatles, died aged 65 in Nashville, Tennessee.

BUSINESS NEWS

Norway picks team to handle investments for petroleum fund

Norway has appointed two US banks and a leading UK fund manager to handle equity investments for its state petroleum fund. Page 16

Adam Opel, the German subsidiary of General Motors, is to announce plans for job cuts to tackle falling profits and rising competition from European and Asian rivals. Page 17

GEC Alsthom, the Anglo-French transport and power engineering joint venture, announced a US$153m contract to supply trains to the Singapore Land Transport Authority. Page 8

Airline chiefs criticised the European Union's competition commissioner for failing to reduce charges levied by European airports. Page 3

MAN, German engineering concern, dismissed speculation it is to sell its truck and printing machine operations. Page 20

Coopers and Lybrand, the accountants, warn that Northern Ireland could see a sharp increase in bankruptcies in 1998. Page 9

Diageo, the food and drink group formed by the merger of Guinness and Grand Metropolitan, said trading for 1997 had been in line with expectations despite Asian economic turmoil. Page 21

SuperValu, an Irish supermarket chain, put on sale what it says is the first beef in the world tested for mad cow disease, using technology from Proteus International, the UK biotechnology company. Page 17

Deutsche Telekom, Europe's largest telecommunications operator, has been forced to redraft controversial national advertising after complaints from First Telecom, a small UK operator. Page 20

Fertiliser prices in the European Union are expected to rise after member states agreed anti-dumping duties on imports of ammonium nitrate from Russia to combat fraud. Page 8

Argentaria, the Spanish bank being fully privatised next month, said it would implement a stock split to improve the liquidity of the shares after the disposal. Page 20

Hans Wurzen resigned as chief executive of Danish telecommunications group Tele Danmark as shareholders voted in favour of the sale of a controlling interest to Ameritech of the US. Page 19

Hitachi and other Japanese chip makers are scaling back production and capital spending plans because of a fall in the price of computer chips and the economic slowdown in Japan. Page 17

Leading brokerages in Japan reported dismal results. Page 17; Nomura faces further penalties, Page 6; Observer, Page 15

Daewoo, the South Korean conglomerate, is seeking a protected market for cars it plans to manufacture in Ukraine. Page 8

Hyundai and LG, South Korean conglomerates, announced restructuring plans. Page 6

Fujitsu, Japan's largest computer manufacturer, has agreed a worldwide marketing deal for the products of Cisco Systems, the leading provider of networking hardware and software for the internet. Page 18

Reckitt & Colman, the consumer products group, is to open its first factory in China to produce household cleaners and insecticides. Page 21

Call for new dialogue between US, Japan and future euro currency zone

Europe looks to play wider role in global money system

By Lionel Barber in Brussels

Signs emerged yesterday that the European Union aims to play a bigger role in the management of the international financial system, with the US and Japan.

Philippe Maystadt, Belgian finance minister and long-time chairman of the International Monetary Fund's interim committee led calls for a new trilateral dialogue between members of the future European single currency zone, the US and Japan.

He told EU colleagues in Brussels that the idea would strengthen the external role of the euro, the future European single currency.

The Belgian initiative, backed by France, appears inspired by the financial crisis in Asia, where the US and the IMF have taken the lead, but it could reopen political divisions over "who speaks for Europe" once economic and monetary union goes ahead on January 1 1999.

As many as 11 out of 15 members of the EU are on track to become founder members of the euro zone. Britain, Denmark and Sweden are expected to remain outside the first wave on political grounds. Greece is not ready to join for economic reasons.

The British presidency of the EU played down the Belgian initiative. Gordon Brown, UK chancellor, who chaired the Brussels meeting, suggested that Mr Maystadt's call for a group of "wise men" to study the issue had met with little support.

Other countries, notably Germany, stressed the role of the Group of Seven industrialised nations in working alongside the IMF to manage the international financial system. Mr Maystadt said the new arrangements would not be a rival to the IMF.

Dominique Strauss-Kahn, French finance minister, said he saw the EU developing into a pole of stability once the euro went ahead: "We want Europe's voice to be much firmer."

EU leaders agreed at last month's summit in Luxembourg that members of the euro zone should speak with one voice, but they fudged the issue of representation in external forums. It is assumed that the future president of the European Central Bank will speak for the monetary policy of the single currency bloc, but it remains unclear whether the country holding the six-month EU presidency can represent the euro members if that country is outside the euro zone.

Representation is a delicate issue for Britain, which last year fought unsuccessfully for a seat at the euro table. Britain also holds the G7 presidency.

Mr Maystadt's initiative tallies with Washington's view that it may be necessary to consolidate European membership inside the G7 to provide a better reflection of the euro zone.

Italy wins support with budget pledges, Page 2; Editorial Comment, Page 15; Lex, Page 16

Italian finance minister Carlo Ciampi, right, and EU commissioner Yves-Thibault de Silguy, who yesterday dropped a controversial plan to stand in French regional elections while staying in office Reuters

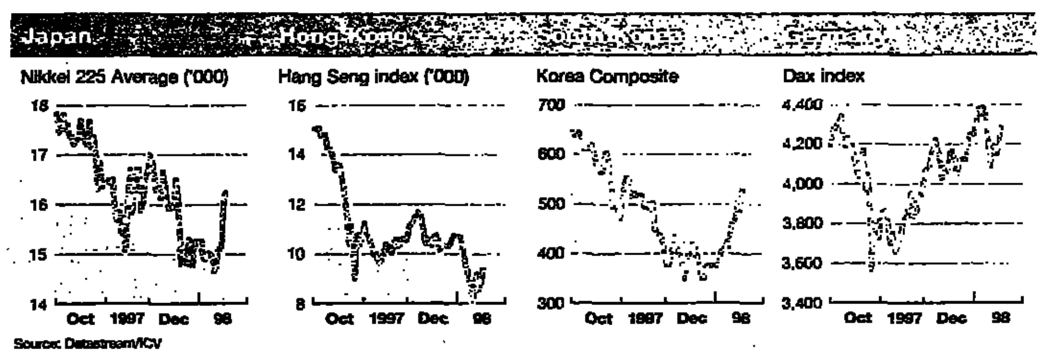
Investors return to Asian markets as fears recede

By Our International and Financial Staff

Investors returned to Asian markets yesterday as fears of chaos in Indonesia eased and countries hit by the regional financial crisis appeared to be getting to grips with the situation.

The Nikkei 225, the key Japanese stock market indicator, rose 1.34 per cent, lifting the pressure on markets across the region. The share prices of Japan's banks rose 7 per cent amid hopes the government would announce more help for the economy.

European markets took heart from the rebound in Asia, but the rally lost impetus in the afternoon, with Wall Street closed for the Martin Luther King holiday. The FTSE 100 index in London closed just 10.5 higher at 5,273.6. In Frankfurt, the Dax index gained 66.37 or 1.6 per cent.



The pound rose above DM3.00 for the first time since August 6, as two surveys suggested that the UK economy was still growing fast enough to prompt inflation. Sterling closed in London at DM3.004, 1.3pfg up on the day.

Visits by US and International Monetary Fund officials to Asia last week have helped restore some confidence. Investors were worried that some countries were not prepared to take the tough decisions needed to put their economies on track.

In particular, unwillingness to confront the economic problems in Indonesia could lead to political and social unrest, which would risk spilling over into neighbouring countries.

Yesterday investors took advantage of share prices that have dropped dramatically over the past six months of the crisis. The recovery in sentiment also boosted Asian currencies. But analysts cautioned that the troubles were far from over and doubted that the rallies were sustainable.

In Japan, analysts said the Nikkei's rebound could falter unless backed by firm action. Ryutaro Hashimoto, Japan's prime minister, added to speculation the government might take measures to boost demand when he said he would retain a "flexible" stance on the economy. "The two goals of fiscal reform and economic stimulus are compatible," he told a parliamentary committee.

In Europe, investors continue to cope with the double-edged effect of the Asian crisis. While deflationary forces released in Asia have been positive for bond markets, they have raised worries about the effect on corporate earnings growth. Markets have accordingly been volatile in the first two weeks of the trading year, as traders attempt to decide which factor will prove dominant.

Asia-Pacific, Page 4
Caging the bankers, Page 14
World stock markets, Page 34

Ciba may join fight for Allied Colloids

By Andrew Edgecliffe-Johnson and Bill Hall in Zurich

The battle for Allied Colloids, the UK group which makes chemicals for pollution control and paper-making, turned into an extraordinary £1.35bn ($2.2bn) auction yesterday. Hercules of the US had to raise its bid twice in seven hours after Ciba Speciality Chemicals of Switzerland revealed it was considering a "white knight" recommended bid.

Hercules lifted its offer from £1.1bn to £1.21bn yesterday morning, only for Ciba to announce 12 minutes later that it was discussing a possible £1.26bn bid with Allied. Yesterday afternoon, Hercules raised the stakes to £1.35bn.

Ciba was last night considering increasing its possible offer. It will examine Hercules' share price today to gauge reaction before deciding whether to raise the terms further.

The New York market was closed yesterday, but Allied Colloids' shares shot up 28p to 196½p – a new high for the company and a fraction above the 195p per share riposte tabled by Hercules yesterday afternoon.

Hercules' new price compares with its original offer of

Continued on Page 16
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Markets

STOCK MARKET INDICES		
New York:		
Dow Jones Ind Av	7,753.55	(+61.78)
NASDAQ Composite	1,562.88	(+15.82)
Europe and Far East		
CAC40	2,986.95	(+10.86)
DAX	4,280.05	(+73.81)
FTSE 100	5,273.6	(+10.5)
Nikkei	16,262.04	(+215.59)

The New York markets were closed yesterday. The figures for New York are Friday's close.

OTHER RATES		
UK 3-mo Interbank	7¾%	(7⅞%)
UK 10 yr Gilt	108.5625	(-)
France: 10 yr OAT	103.19	(-)
Germany: 10 yr Bond	106.73	(-)
Japan: 10 yr JGB	109.06	(-)
NORTH SEA OIL (Argus)		
Brent Dated	$15.345	(14.84)

GOLD		
New York: Comex		
(Jan)	$290.6	(285.9)
London:		
	$287.55	(289.65)

EXCHANGE RATES		
Dollar		
New York:		
£	1.6338	(1.631)
DM	1.8335	(1.8313)
FFr	6.142	(6.133)
SFr	1.498	(1.498)
Y	129.35	(129.885)
London:		
£	1.6357	(1.6371)
DM	1.8367	(-)
FFr	6.1508	(-)
SFr	1.4991	(-)
Y	128.65	(-)
Tokyo close		Y127.80
Sterling		
DM	3.0043	(2.9911)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Los Angeles · Tokyo · Hong Kong

Britain	[illegible]	Belgium	[illegible]	Cyprus	[illegible]
Denmark	[illegible]	Estonia	[illegible]	Finland	[illegible]
France	[illegible]	Germany	[illegible]	Greece	[illegible]
Hungary	[illegible]	Iceland	[illegible]	Italy	[illegible]
Jordan	[illegible]	Kuwait	[illegible]	Latvia	[illegible]
Lithuania	[illegible]	Luxembourg	[illegible]	Morocco	[illegible]
Netherlands	[illegible]	Nigeria	[illegible]	Norway	[illegible]
Oman	[illegible]	Poland	[illegible]	Portugal	[illegible]
Qatar	[illegible]	S.Arabia	[illegible]	S.Africa	[illegible]
Spain	[illegible]	Sweden	[illegible]	Syria	[illegible]
Switzerland	[illegible]	Turkey	[illegible]	UAE	[illegible]

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FINANCE

EMERGING MARKETS

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NEWS: EUROPE

Italy wins support with budget pledges

By Lionel Barber in Brussels

Italy took a big step yesterday towards becoming a founder-member of Europe's single currency next year, winning broad support from the rest of the European Union for plans to reform its public finances.

EU finance ministers in Brussels said that the Italian government's 1998 budget deficit was likely to be 2.8 per cent of gross domestic product. This follows an expected deficit of 2.7 per cent in 1997, probably lower than in France or Germany.

Together, the two projected deficits fall under the 3 per cent target required by the EU's Maastricht Treaty to qualify for monetary union. This will strengthen the Rome government's argument that the squeeze on public spending is sustainable in the medium term.

The toughest issue for Italy is its large public debt, which at 123 per cent of gross domestic product is more than twice the target of 60 per cent set at Maastricht. Rome hopes to convince its EU partners that the ratio of debt to GDP will be falling at a satisfactory rate in line with the provisions of the treaty.

Carlo Azeglio Ciampi, Italian finance minister, confirmed that the centre-left government aimed to cut the debt by 2002 to 100 per cent of GDP and reduce it further to 60 per cent by 2010. However, this assumes nominal GDP growth of 4.5 per cent a year, a cost of serving the debt of 5 per cent, and a primary surplus (excluding interest payments) of 5.5 per cent.

Throughout yesterday's meeting, ministers took pains to stress that they were in no way prejudging the summit in Brussels in early May which will select the founder members of the Emu bloc. They also urged the Italian authorities to implement their budget vigorously in order to further reduce the public deficit to meet their own target of 1.8 per cent of GDP by the year 2000.

Germany and the Netherlands, the strongest critics in the past of Italy's budgetary performance, paid tribute to recent measures to tighten control of state spending.

Theo Waigel, German finance minister, noted that the centre-left government had pledged to take extra corrective measures in the event of any slippage.

He also repeated the collective warning that the Italian authorities would have to be vigilant to make sure that one-off revenue-raising measures such as a so-called euro-tax did not lead to a shortfall.

Gerrit Zalm, Dutch finance minister, repeated reservations which he made last summer about Italy's projected deficit in 1998. But Mr Zalm, who last week was forced to deny that he had threatened resignation if Italy was a founder Emu member, added: "We don't have a special position on Italy. We have no historical or geographical prejudgment as far as Italy is concerned."

Mr Ciampi announced that a draft 1999 budget would be brought forward for EU scrutiny in mid-April. He also gave a political commitment to reduce by more than half the so-called unspent "budgetary residues".

Editorial Comment, Page 15

London aims to stay at the centre

George Graham talks to the Bank of England's deputy governor about his euro 'roadshow'

Preparing for Emu

The Bank of England is to launch an international roadshow to market London's readiness to deal in euros as soon as the European Union introduces its single currency. David Clementi, the bank's new deputy governor, will lead a delegation to New York, Zurich, Tokyo, Hong Kong and Singapore to reassure international investors that London's financial markets and payments and settlement infrastructure will cope with the euro, even though the UK will not join the economic and monetary union (Emu) first phase.

He will be accompanied by senior bankers with links to each centre: Sir David Walker of Morgan Stanley in New York, Brian Quinn of Nomura in Tokyo, David Mulford of Credit Suisse First Boston in Zurich and Win Bischoff of Schroders in Hong Kong and Singapore.

"The key message which the Bank of England is trying to get across is that, while the euro is not our domestic currency, it must be the central currency for the wholesale markets in London," Mr Clementi said yesterday in an interview.

"We are in the curious position that the euro is not our domestic currency but it is a wholesale currency. I wouldn't say it is an advantage. Our job is to make sure it is not a material disadvantage."

The Bank has taken a leading role in the City of London's preparations for monetary union, spearheading discussions on a number of wholesale market issues such as conversion processes and the redenomination of bonds.

Its publication *Practical Issues Arising from the Introduction of the Euro*, now in its sixth edition, has become required reading among bankers and others affected by the new currency.

Today the Bank will host a symposium for those involved in euro preparations, covering subjects from London's Chaps payments system and its links to the Europe-wide Target system, to the development of equity indices and equity capital markets after the start of Emu on January 1, 1999.

> 'While the euro is not our currency, it must be the central currency for London's wholesale markets'

Mr Clementi is confident that London has a head start in the battle to become the leading euro financial centre. He believes, for example, that since it is already the world's largest foreign exchange trading centre, the City must surely become the leading centre for trading the euro against the dollar.

London investment bankers are already as conversant in dollars as they are in pounds. He believes that in the same way they will be able to discuss deals in euros without having to pull out their pocket calculators.

But he warns that London's leadership is not a foregone conclusion. "This is not something we have as a right. It is something we have to earn, something we have to work at."

An investment banker with Kleinwort Benson for much of his career, Mr Clementi led the privatisation of British Telecom – Britain's first large-scale privatisation – and headed his bank's equities division. He saw Kleinwort pass into the control of Germany's Dresdner Bank, and has seen at first hand the deliberations that go on in an investment bank about where to base operations.

He believes the deciding factor is where the market and trading activity are centred.

"The one thing you do need is to centralise your traders. You can't have people all over the place betting the bank. It's very hard to control.

"At the simplest level, it's harder to spot when a trader comes back from lunch having had too much to drink. There's a limit to how much damage a salesman can do when he's had too much to drink, but not for a trader."

Once a bank has located its trading in one place, other functions such as IT, accounting and senior management naturally follow.

One of the biggest question marks over London's status has been over access to the Target euro payments system. Although banks in "out" countries will have access to Target, central bankers in the likely "in" countries have been reluctant to give them equal rights to intraday credit from the European Central Bank.


Clementi: mission to international investors *Lydia van der Meer*

The Bank of England has been working on alternative sources of liquidity to ensure that UK-based banks are not disadvantaged. In its latest *Practical Issues* publication it suggested ways of reducing their requirements for intraday credit, as well as alternative sources of euro credit – possibly even from the Bank's own euro resources.

While Mr Clementi takes the payments issue seriously, he argues that it is in the end secondary to deciding where to base an investment banking operation.

"I don't see a direct link between where the central bank is and where the main markets are," he said, pointing to the US, where the Federal Reserve has its headquarters in Washington but the biggest financial markets are in New York.

"I don't want to make light of the payments side, but it's not an issue that in my view will drive where people base their businesses."

German cities' deficits increase

Germany appeared yesterday to be still on track to qualify for European economic and monetary union despite a higher than expected shortfall in local authority finances last year. Peter Norman reports from Bonn.

The association of German cities reported that the local authorities' overall deficit increased from DM6.6bn ($3.6bn) in 1996 to DM9bn last year and forecast a further increase to DM9.8bn this year.

Although last year's deficit was lower than the association's DM10.5bn forecast at the start of 1997, it exceeded the DM7.5bn shortfall predicted by the federal government last November. The finance ministry forecast that Germany's total 1997 public deficit would be DM110bn and would meet precisely the European Union's Maastricht Treaty deficit limit of 3 per cent of gross domestic product for countries wanting to join Emu.

Yesterday's fiscal setback followed last week's bullish news from Theo Waigel, the finance minister, that federal government net borrowing of DM64.6bn in 1997 was DM6.2bn below the budgeted total. He also said most federal states, or Länder, had kept 1997 borrowing in line with the Maastricht rules. Only financially troubled Berlin had experienced problems.

However, the finance ministry said yesterday it was too early to calculate the 1997 deficit, partly because the local authority figures were based on the results of a survey.

US investors fail to win oil 'looting' audit

By Chrystia Freeland in Moscow

Western investors with a minority holding in an important Russian oil company made a failed attempt yesterday to hold an extraordinary shareholders' meeting.

The investors, who failed to raise a quorum, said they were seeking protection against what they described as Russian oil companies' "systematic looting" of the assets of their production subsidiaries.

Mikhail Khodorkovsky, chairman of Yukos, which recently acquired Tomskneftegaz, the company involved, accused the minority shareholders of seeking a quick fortune, and said his priority was to secure the rights of investors in the holding company.

The extraordinary meeting was sought by Acirota, a US investment company which owns 13.6 per cent of Tomskneftegaz. Acirota, whose lead investor is Kenneth Dart, a US food container mogul, was seeking an independent audit of all the company's transactions with affiliated groups. It was an effort to expose the transfer pricing which Acirota says Russian oil companies routinely practise to siphon profits from production subsidiaries into the holding companies.

With just 13.6 per cent of the company, Acirota had no realistic chance of passing the resolution. Observers speculated that Mr Dart, who is believed to have huge investments in many of Russia's production subsidiaries, staged the action largely in an effort to draw public attention to the conflict.

"One of the most common tactics for looting oil production subsidiaries is transfer pricing," Walter Reiman, an Acirota lawyer, said. "The victims of this practice are legion the workers of the company, who may be owed significant wages, the government, which cannot collect taxes from a moribund company, and the non-majority shareholders, whose interests are wiped out."

But Mr Khodorkovsky, who became Russia's most powerful oilman yesterday when Yukos signed a merger with Sibneft, said he was offering minority shareholders in the production subsidiaries "an honest buy-out".

He also said he would fight outsiders who saw Russia as a Klondike in which they could make fortunes without serious contributions of capital or knowhow.

Digital music on-line for cable TV customers

By Alice Rawsthorn

Cable television subscribers in Switzerland, Belgium and the Netherlands may soon be able to buy music in their homes by having it delivered directly to their multimedia computers in the form of a digital signal.

AudioSoft, a French software company which has developed a digital distribution system for music already running on Lyonnais des Eaux's cable networks in France, is in the final stage of talks to sell its technology to Swiss, Belgian and Dutch cable television contractors.

Selling music is seen as a potentially popular service for high-speed telecommunications systems, cable television networks and internet site providers.

So far, such services have been run on an experimental basis. However, Deutsche Telekom, Europe's largest telecommunications company, is in advanced negotiations with multinational music groups – including Sony, PolyGram and EMI – to sell digital versions of their recordings to more than 1m German homes on its T-Online interactive telephone network.

AudioSoft, which includes the pop singer, Phil Collins, and several members of Genesis, his former band, among its shareholders, has been running tests on Lyonnais des Eaux's high-speed cable networks in Paris, Strasbourg, Le Mans and Nancy since last spring.

In the tests, consumers have chosen from several hundred tracks released by independent French record labels. Each track, costing FFr10 ($1.63) to FFr25 ($4) is sent to the consumer's computer hard disk in the form of a digital signal, which is encrypted to prevent unauthorised copies being made.

François-Xavier Nuttall, AudioSoft's chief executive, said the tests are now completed, and Lyonnais des Eaux is preparing to make the service available to high-speed cable subscribers throughout France by the end of this year.

AudioSoft hopes to agree terms to introduce the system to other European countries by early summer. Mr Nuttall said its talks with the Swiss, Belgian and Dutch operators had reached an advanced stage.

The company is also talking with several of the multinational music groups which are negotiating with Deutsche Telekom.

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Yilmaz tries to gain from Welfare ban

Turkish politicians are scrambling for Islamist votes, says **John Barham**

The closure of the Islamist Welfare party for undermining Turkey's secular order has satisfied ardent secularists, but it seems unlikely to break the political gridlock that has prevented much-needed reforms for almost a decade.

"All politicians including Mesut Yilmaz [the prime minister] will try to benefit from Welfare's closure, but I doubt he will have much of a chance of capitalising from Welfare voters," said Sedat Ergin, editor of the newspaper Hurriyet.

Mr Yilmaz shoulders responsibility for his coalition government's failure to make headway in promised social, political or economic reforms since it took office last summer.

Welfare took 21.4 per cent of the vote in the last general elections in 1995, more than any other party, but pollsters contend that most of its support came from voters disgusted at corruption and a poorly working economy rather than from diehard Islamists. Secularist politicians are attempting to win over these voters to their parties, which have substantial Islamist factions of their own.

A senior official of Mr Yilmaz's conservative Motherland party appealed at the weekend to Welfare supporters to join the party. Tansu Çiller, leader of the rival centre-right True Path party, and Welfare's former coalition partner, began courting the Islamist vote as soon as state prosecutors brought charges against the party last May. She said yesterday she would launch a "civic initiative to restructure democracy", apparently by grouping opposition parties under her leadership.

Opinion polls last month indicate that Welfare's ordeal at the constitutional court, which ended when it was closed down last week, has not won it much sympathy among the overwhelmingly secularist electorate.

Support for Welfare remains steady at 21 per cent of voters, but the rating of its leader, Necmettin Erbakan, is the lowest of all party leaders. The poll found that 71 per cent of voters disapprove of him, compared with the 59 per cent who disapprove of Mr Yilmaz.

Selim Oktar, general manager of Strateji-Mori, the company which carried out the poll, expects Mr Yilmaz will soldier on for at least another year. Mr Yilmaz wants to remain in office until 2000, when elections will be due and by which time he would have slashed inflation to 3 per cent. Miranda Xafa, currency strategist at Salomon Smith Barney, the Wall Street investment bank, said this would "require fiscal adjustment to take place in order to ensure that it is sustainable".

Governments have promised reforms such as privatisation, restructuring of the deficit-ridden social security system and a new tax system for nearly a decade, but all have achieved little.

A delegation from the International Monetary Fund began talks with the government yesterday that are expected to last two weeks.

It scarcely seems likely that Mr Yilmaz's fragile coalition, which includes a centre-left party suspicious of reform, will be able to ram through these unpopular measures. As the largest opposition bloc, the Islamists would stand to gain the most from the government's difficulties. However, under Mr Erbakan, Welfare was a coalition of moderates and stalwart Islamists united only by his skill at forging consensus.

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NEWS DIGEST

SPD presents tax package

Germany's opposition Social Democrat party yesterday set out a package of tax and other economic reforms which it said could still be implemented before September's general election – but which could also serve as the basis for its election manifesto.

In a bid to throw blame for Germany's political gridlock on to the ruling centre-right coalition, a declaration by the SPD leadership said that "even in election year, we're always prepared to agree political solutions for tackling unemployment".

Joblessness in Germany has reached almost 12 per cent of the workforce. But tax cuts which the government argues are crucial to revitalise the economy have been thwarted by disagreements with the SPD-dominated Bundesrat, or second chamber of parliament. The centre-right coalition led by Helmut Kohl, chancellor, has officially drawn a line under negotiations until after September.

The SPD issued its statement as the party prepared its campaign for elections in Lower Saxony on March 1 which will be a crucial test of support for Gerhard Schröder, the state's prime minister and possible SPD candidate for the post of chancellor in September. *Ralph Atkins, Bonn*

■ SPANISH TERRORISM

Prison terms for Eta bombers

Four members of the Basque independence organisation Eta were given prison terms yesterday for their involvement in a car-bomb attack which killed three people and injured 21 in 1992. They were also ordered to pay Pta25m ($160,000) to the families of the victims of the blast.

The National Audience, Spain's highest penal court, sentenced Inaki Recarte and Luis Angel Galarza to 208 years and six months in jail each on charges including terrorism and assassination.

Gonzalo Rodriguez Cordero and José Gabriel Zabala Erasun were sentenced to 162 years in prison each for theft, terrorism and assassination. Cordero and Erasun had driven a stolen car from San Sebastian to Santander for use in the carbombing. Filled with 25 kilos of explosives, the car exploded on February 19 1992, as a police car drove past. *AFP, Madrid*

■ WAR CRIMES TRIBUNAL

Vukovar mayor goes on trial

The former Serb mayor of Vukovar, a Croatian town destroyed in the 1991 Serb-Croat war, went on trial at the United Nations war crimes tribunal yesterday accused of taking part in the slaughter of at least 200 Croats and other non-Serbs.

Slavko Dokmanovic, 48, has pleaded not guilty to all six charges, including crimes against humanity and war crimes. Investigators arrested him in a surprise operation last June in the eastern Slavonia region of Croatia.

In his opening statement, the trial prosecutor, Grant Niemann, accused Mr Dokmanovic of participating in events leading up to the killing of 198 men and two women, many of them civilians.

The prosecution contends that Mr Dokmanovic and three Yugoslav People's Army (JNA) officers orchestrated the killings after Vukovar fell to Serb forces in November 1991 after a three-month siege. The officers are still at large.

The Yugoslav National Army and Serb forces besieged Vukovar after Croatia declared its independence from Yugoslavia in June 1991. They captured the city after a sustained artillery assault that left hundreds dead and destroyed most buildings. *Reuters, The Hague*

■ SWISS BANK MERGER

Backing for twin headquarters

The Swiss government has taken the unusual step of recommending that UBS and Swiss Bank Corporation, two of the country's big three banks, can continue to operate twin headquarters in Basle and Zurich when they merge into the United Bank of Switzerland later this year.

Under Swiss commercial law, merged companies cannot have head offices in more than one place. Since UBS is far bigger than Swiss Bank Corporation, Zurich was the obvious location for the corporate headquarters of what will be Europe's largest bank.

However, the Swiss government has bowed to pressure from Basle, which was concerned that moving the headquarters to Zurich would further undermine the economy of what used to be the wealthiest city in German-speaking Switzerland.

The new UBS will be entered into the commercial registers of Basle and Zurich.

The only other Swiss company allowed to maintain dual headquarters is Nestlé, the world's biggest food company, which is based in Vevey, on the shores of Lake Geneva, but has maintained a small head office in Cham, in the canton of Zug, ever since it took over the Anglo Swiss Condensed Milk Company in 1906. *William Hall, Zurich*

■ SPANISH STRIKE

Miners barricade roads

Employees of the the state-owned Hunosa coal mines in northern Spain blocked roads and a railway line yesterday on the fourteenth day of a strike to protest against management plans for cutbacks and layoffs. Strikers set up barricades on two roads and a railway line leading into the regional capital of Oviedo.

Unions representing roughly 10,000 miners said the strike would continue until Thursday, when the next round of negotiations with management is scheduled to be held. At the meeting, management is expected to present a new settlement proposal.

The strike has been staged intermittently since December 26 protest at the government's plan to follow European Union guidelines and drastically cut subsidies to the unprofitable industry.

The unions say these plans go against an accord reached last May that called for a more gradual cut in production and the company's workforce.

Analysts estimate the stoppages at the 13 mines have cost more than Pta2bn ($13m) in losses. *AP, Oviedo*

■ FRANCE

Socialists play down 'rift'

The leader of France's ruling Socialist party yesterday played down the significance of divisions with its Communist coalition partner over social security payments and the single European currency.

François Hollande, first secretary of the party, said that the government would operate according to statements during the election campaign last May, which pledged support for the euro on condition that it was linked to renewed economic growth, lower working hours and new employment programmes.

There are growing signs of a rift between the Socialists and Communists, who this weekend supported protests by thousands of unemployed people calling for greater financial assistance. Robert Hue, leader of the Communists, also called for a referendum on the euro.

Lionel Jospin, prime minister, is expected to make a television address tomorrow ahead of the formal launch on Saturday of the Socialist party's campaign for the March regional elections. *Andrew Jack, Paris*

Havel prepares to home in on Czech society

President is expected to secure a second term in which he is likely to concentrate on domestic issues, writes Robert Anderson

Vaclav Havel is seeking re-election as president of the Czech Republic today in the middle of a prolonged political crisis that has revealed the potential as well as the limitations of his largely ceremonial role.

Mr Havel, the former dissident playwright and figurehead of the 1989 "Velvet Revolution", faces candidates from the Communist party and the extreme rightwing Republicans but is backed by all the other main political parties.

He is widely expected to win in the first round of voting by a simple majority in each chamber of parliament. The only question mark is his health: he had a lung cancer operation in December 1996 and a recurrence of pneumonia last October.

It is possible, however, that he may be punished by some Civic Democratic party (ODS) deputies for his perceived role in the downfall of the former prime minister, Vaclav Klaus, in November. In particular, they resent Mr Havel for kicking the prime minister when he was down in a speech to both houses of parliament last month.

The prime minister's fall was sweet revenge for Mr Klaus's role in breaking up Mr Havel's pro-democracy Civic Forum movement in 1992 and, after winning a strong mandate for his new centre-right ODS party, writing a constitution that confined the role of the president within narrow bounds.

Mr Havel, who was elected Czechoslovakia's president in 1989 and then Czech president in 1993, was forced to watch while Mr Klaus imposed his own ideas for reform, focusing on material improvement and ignoring, in Mr Havel's view, the need to rebuild civil society after four decades of communism.

Mr Havel tried to act as a counterweight to Mr Klaus in his weekly radio address, but the prime minister cut him off from regular government policymaking. Instead he had to concentrate on foreign policy, where the constitution gives the president a stronger role.

There he used his international standing to ensure that the Czech Republic was chosen to be in the first wave of entrants to the European Union and Nato. He has pushed the government to take preparations for future membership seriously.

Mr Havel has taken a more prominent role in domestic politics since Mr Klaus's coalition lost its majority in 1996, and especially since December, when the coalition fell apart over a political funding scandal in the ODS. "The politicians only discovered they needed him in 1996," says Jiri Pehe, the president's political adviser. "He was transformed into the backbone of the system again, almost against his will." According to Jan Svejnar, Mr Havel's economic adviser, "the president's powers are quite limited. Havel's power is moral." But the limitations of his influence over the warring politicians are as notable as the moral standing he has abroad and among ordinary Czechs.

He managed to cobble together only a hybrid cabinet of minor parties and technocrats, and the two main parties, the ODS and the Social Democrats, have remained aloof, insisting on a limited government programme and early elections.

Moreover, the future of that government is looking increasingly uncertain. Josef Tosovsky, the central bank governor, who was persuaded by Mr Havel to become caretaker prime minister, said yesterday that he would consider resigning if the parties did not come to an agreement about its mandate and the mechanism for early elections.

Miroslav Sladek, leader of the Republican party, (left) is challenging Vaclav Havel's re-election as president Reuters

Mr Havel may be able to carve out a different role in his second term – under the constitution, his last – because he will not need to curry favour with the parties to secure his re-election. "Like all second-term presidents, he will be playing for history," says Mr Pehe.

His advisers say the president wants to complete the entry of the Czech Republic into western institutions, but the focus of his second term will be much more on the domestic arena.

However, despite calls for him to play a bigger role in politics, they expect him to be less visible because the current government and its likely Social Democrat-led successor will probably be more receptive to his philosophy of building up a strong civil society by encouraging non-party organisations and changing popular values.

This is the core of Mr Havel's beliefs, but it is one that is very difficult to explain to ordinary Czechs, who have grown used to centuries of a strong and suffocating state.

But having helped overthrow communism, and afterwards, as one psychologist said, "taken on the guilt of the past regime", Mr Havel will feel that his work is complete only when the country is firmly anchored with a vibrant civil society and membership of western institutions.

Roman shopping revolution to fight inflation

By James Blitz in Rome

The Italian government has launched a sweeping reform of the retail sector to deregulate one of the most rule-bound shopping cultures in Europe.

Romano Prodi's government has announced plans to scrap a range of rules governing the setting up of shops and their opening hours. For the first time it will allow anyone to set up a shop of less than 300 square metres without a licence and shops will be able to open at any time between 7am and 10pm to a maximum of 13 hours, scrapping rules under which most must shut at lunchtime.

The government is also ending a long-standing regulation under which local outlets can only sell produce within one of 14 strict categories – forbidding, say, grocers to sell sweets and tobacco, or butchers to sell dairy produce.

Ministers are hailing the reform as an important move to counter inflation when, as expected, Italy enters European monetary union next year. Paolo Onofri, the prime minister's economics adviser, says deregulation will create greater competition, ensuring that shopkeepers restrict margins.

Giuliano Amato, until recently president of Italy's anti-trust authority, says the move puts an end to the current system, which he dubs "child of Gosplan" (the former Soviet state planning committee). He says that, under the new rules, it will no longer be possible for ministers and retailers' representatives to decide between them how many shops there should be.

However, the reforms compound Italy's long-standing antipathy to supermarkets and hypermarkets, which make up just 1 per cent of all retail outlets. The government is forbidding the creation of new supermarkets for 12 months.

The package, to be implemented within a year, faces stern opposition from the retailers' organisation, Confcommercio. Its president, Sergio Billè, says there are 500,000 retailers in Italy, twice as many as in France, a country of similar population. But he argues that the proposals will create yet more shopkeepers when, in his view, it would be far better if the government allowed successful ones to grow by encouraging a relaxation in commercial credit.

The ban on new supermarkets will mean that foreign companies wishing to enter the Italian market will have to consider mergers or hostile takeovers of existing groups. In recent months, Promodès, one of France's largest hypermarket chains, has taken a stake in the GS group, Italy's third largest, and the French Auchan hypermarket has established a link with Rinascente, Italy's second largest retailing company.

Van Miert pressed on airport charges

By Emma Tucker in Brussels

Airline chiefs yesterday attacked Karel Van Miert, the European Union's competition commissioner, for failing to reduce the high charges levied by European airports, many of which maintain monopolies on basic passenger services.

Karl-Heinz Neumeister, secretary general of the Association of European Airlines, said the situation in Europe was "sick", with airports charging more than double their US counterparts for the turnaround of a Boeing-747. Of 29 European airports in an AEA study, all except Larnaca would have to reduce their charges to match the average cost at the four US airports surveyed – Houston, Miami, San Francisco and Washington Dulles.

The study, carried out by Cranfield University, showed prices ranged from an upper level of $19,275 for a Boeing-747 at Ljubljana airport to $1,867 at London City Airport for a Boeing 737.

The worst offending airports were Paris Charles de Gaulle, Frankfurt, Ljubljana, Keflavik, Munich and Vienna. The least expensive were Larnaca, London Gatwick, Luxembourg and Malta.

Airports which had a monopoly on ground handling services such as baggage handling, cleaning and catering tended to levy high charges.

Last week the European Commission ordered Frankfurt airport to dismantle monopolies it holds on airport ground handling services, following a complaint from Air France, KLM and British Airways that the airport was abusing its dominant position. The complaint has taken several years to settle and under EU legislation airports still have until the end of next year to open up to competitors.

Jürgen Weber, chairman of Lufthansa and the AEA, said the association had told Mr Van Miert yesterday there were dangerous tendencies inside the European Commission to "turn back the liberalisation clock".

"There is a risk of the EU losing sight of the global aspect of our competitiveness when shaping its competition policy to govern the European airline industry. Liberalisation, we fear, might end up in a host of new regulations – not meant that way – which are supposed to secure so-called 'free' competition, but achieve the opposite," he said.

NEWS: THE AMERICAS

US insurers fear dent in profits

By John Authers in New York

US insurers are worried conditions for the industry will worsen this year, making a significant dent in profits.

According to a survey of more than 250 senior executives at a New York conference the focus of concern has also shifted. Insurers had been preoccupied by attempts to guard against excessive catastrophe losses for most of the 1990s, following a series of costly earthquakes and hurricanes in north America. Now most executives, confident they can withstand future catastrophes, are more occupied with the sector's excessive competition and low growth.

According to a poll conducted at last week's Joint Insurance Forum, organised by nine separate insurance trade associations, 93 per cent of insurance executives expect a decline in profitability this year, while 96 per cent predict further mergers and acquisitions. These are most likely in the commercial insurance sector, where rates have been held low by heavy competition.

Competition, combined with the widespread belief the US insurance industry is "mature", meant that total premiums increased by only 3.3 per cent last year, with percentage growth in single digits for a decade.

Standard & Poor's, the insurance rating agency, estimates premiums will grow by 4 per cent this year, equivalent to a real growth rate of 1 per cent, and believes this could pose "serious long term threats" to the industry.

"Underwriting capacity and competition will continue to depress rates in the near term. Insurers are expected to continually try and distinguish themselves through industry segmentation, product underwriting expertise and superior claims handling," the agency said.

The Asian currency crisis, which could hit demand in a region where many of the largest insurers have expanded aggressively, will also dent the prospects for premium growth. Increasing numbers of insurers are prepared to abandon their traditional reliance on insurance agents to sell policies, in favour of experimenting with new channels, including the internet.

A strong majority expects catastrophe reinsurance costs for homeowners to decrease, and most no longer expect legislation for a national scheme to finance disaster relief.

But Standard & Poor's said balance sheets were still vulnerable to catastrophe exposure. Very little was being done about the "Year 2000" issue affecting computer systems. Insurers are potentially liable to claims if there are widespread computer crashes.

The US insurance industry had its most profitable year in almost a decade in 1997, John Authers writes, but this was almost entirely due to the lack of any severe weather conditions in north America, rather than growth of business.

According to projections published by the New York-based Insurance Information Institute, the industry's combined ratio, the most commonly used benchmark of insurance company performance which expresses total costs of administration and payments for losses as a proportion of premiums, was down to 102 per cent last year. This was its lowest level since 1979.

Strong capital markets delivered investment gains for insurers, with income from interest and dividends up 9.2 per cent, and capital gains up 7.6 per cent. The result was the rate of return rose from 11.3 per cent in 1996 to 13.2 per cent, the industry's highest rate since 1989, the year of Hurricane Hugo, the first of a series of north American catastrophes. The institute says the industry still lags the average rate of return for US companies, estimated at 14 per cent.

Catastrophe losses for last year are estimated at $3.5bn, down from $7.4bn in 1996, and the lowest figure since 1990. Total catastrophe losses for last year were less than those caused by Hurricane Hugo alone ($4.2bn), while 1992's Hurricane Andrew cost $15.5bn.

Online shopping ready for take-off

By Peggy Hollinger in London

The number of US households regularly using online services to buy groceries and related goods will rise from the current 200,000 to 15m-20m by 2007, according to a two-year investigation into online shopping habits.

The Consumer Direct Cooperative, a consortium of 31 companies led by Andersen Consulting and including Coca-Cola and Nabisco, estimates that by then, US households will spend some $85bn a year on food and other goods by computer.

The findings stem from two years of research interviewing 1,800 shoppers across the US and tracking the buying habits of 800 online purchasers.

"Consumers across the country have made it clear that they are ready for online grocery shopping," said Vic Orler, a partner at Andersen Consulting. "Consumer direct services are about to become big business and companies need to start thinking now about how to take advantage of this imminent boom, or else they will be left behind."

The study found online shoppers cut across all income and educational levels. A recent upturn in personal computer sales in the US has been put down to a sharp drop in PC prices. "The appeal of consumer direct services is broadly based," said Mr Orler. "It is by no means limited to dual income households."

The study argues that online services will replace at least half the US citizen's average 17 monthly shopping trips made to grocery stores and related outlets.

Services such as mail and package delivery, dry cleaning, and film processing, as well as prescription services and video rental, will all appeal to these customers, Andersen argues.

'Angel of Death' in court probe

Answers sought over fate of missing Argentine journalist

By Andrea Campbell in Buenos Aires

Alfredo Astiz, a retired naval captain and former death squad leader, went before an Argentine federal court yesterday, to answer questions over the fate of Argentine journalist Rodolfo Walsh, who disappeared in 1977 during the military dictatorship which ruled Argentina from 1976 to 1983.

Mr Astiz has been put under a 60-day military arrest. He had referred to the missing journalist during an interview published by the Argentine magazine Trespuntos last week.

In his first-ever interview, Mr Astiz, 47, appeared unrepentant over the seven-year dictatorship which left as many as 30,000 dead, and warned of a possible military uprising if the press and others continued to "goad" the Argentine armed forces.

"I'm telling you: "Don't keep pushing us into a corner, because I don't know how we're going to respond. You're playing with fire," he warned. He also said military comrades regularly asked him to lead an uprising. President Carlos Menem last week ordered the "most severe penalty" under military law.

The Argentine navy, which is studying whether Mr Astiz can be charged with any crimes, "categorically rejected" his statements in an official press release and underlined its support for democracy and the state of law.

Known as "the blond angel of death", Mr Astiz worked out of the Naval Mechanics School (ESMA), which served as a clandestine concentration camp where thousands are believed to have disappeared during Argentina's so-called "dirty war".

Mr Astiz, along with about 1,000 lower-ranking military personnel, was given amnesty for human rights abuses committed during the dictatorship under the 1987 Full Stop and Due Obedience Laws passed by former President Raúl Alfonsín.

Laura Bonaparte, who lost seven family members during the dictatorship, said: "It ends fantasies I have kept for years that I would one day be re-united with my loved ones".

Political parties, human rights groups and relatives of the dead have since flooded the courts with suits calling for Mr Astiz to be charged with everything ranging from public threats to sedition.

Relatives of the dead have flooded courts with pleas

The City of Buenos Aires legislature declared him *persona non grata*, and the federal government has also asked the attorney-general to investigate other possible crimes.

Mr Astiz's interview came days after President Menem announced plans to demolish ESMA and replace it with a monument to "national reconciliation".

The plan, which would see the building in Buenos Aires turned into a park and meeting place for visiting dignitaries, raised the ire of family members, and sparked protests by human rights groups demanding the school be turned into a memorial museum.

Venezuelan minister under fire

By Raymond Colitt in Caracas

Erwin Arrieta: ordered to pay back $212,000 AP

Venezuela's energy minister, Erwin Arrieta, could become the second political casualty in President Rafael Caldera's cabinet in recent months.

Amid early manoeuvring ahead of December's presidential election, Eduardo Roche Lander, the controller general, has ordered Mr Arrieta to reimburse the state with Bs106m ($212,000) for the cost of alleged personal use of aircraft owned by the state oil company, Petróleos de Venezuela.

If Mr Arrieta is found guilty of inappropriate use of public funds, the president would be forced to remove him from office. Political analysts say Mr Arrieta is likely to appeal to the supreme court against the controller's order in the hope of delaying any action before the end of the administration's term in 1999.

The controller's move comes two months after the finance minister, Luis Raúl Matos Azócar, was forced to resign under pressure from opposition parties over alleged "irregularities" in the payment of a public works contract.

According to the controller's latest investigations: "Between January 1992 and October 12 1996, Mr Arrieta authorised 155 flights that were not in line with existing regulations."

Evanán Romero, vice-minister of energy, also must reimburse the state for 27 such flights.

Most of the flights were allegedly between Caracas and the minister's secondary residence in the port city of Barcelona, the controller's office said.

Mr Arrieta, who did not comment on the controller's decision, must pay the money or appeal before the supreme court. The controller initially planned to charge Mr Arrieta close to Bs400m but reduced the sum, apparently after seeing evidence that some of the flights were for official use.

The controller's office said yesterday it would "decide over Mr Arrieta's administrative responsibility" within coming weeks. Mr Roche denied his move against Mr Arrieta was politically motivated or related to the electoral campaign.

● Ecuador's energy minister, Rául Baca, has been impeached by Ecuador's Congress, Justine Newsome in Quito writes, on charges being viewed as politically motivated.

Mr Baca was voted out of office by a one-off alliance which included the rightwing Social Christian Party (PSC), accusing him of resisting market reform, and the leftwing Popular Democratic Movement, blaming him for neo-liberal policies.

The impeachment may also affect the national assembly currently debating a new constitution. It remains to be seen whether the PSC's vote against Mr Baca will damage its majority alliance there with the government and other parties.

The assembly is also soon to discuss ending Congress's capacity to impeach ministers, a regular occurrence in Ecuador, which disrupts continuity in policymaking and legislative business.

President Fabían Alarćon is expected to name a new energy minister this week. The minister will be under pressure to push ahead in the seven months remaining of this government with a repeatedly delayed project to expand the state cross-country oil pipeline and award concessions to the private sector for the urgently needed San Francisco and Mazar hydro-electric schemes.

A maverick general fights legal shackles

A bitter personal feud has erupted ahead of Paraguay's presidential poll, writes **Ken Warn**

Former General Lino Oviedo, the ruling Colorado party's presidential candidate, is expected to mount a forceful campaign ahead of Paraguay's May 10 general elections. If, that is, he ever gets out of jail.

The maverick former head of the army was arrested last month on charges of "insulting the presidency" after repeatedly accusing President Juan Carlos Wasmosy, a colleague in Colorado, of corruption.

This month the 30-day arrest order was extended indefinitely by an extraordinary military tribunal, constituted by Mr Wasmosy, pending civil court rulings on mutiny and other charges against Mr Oviedo.

An intense personal feud has developed between the two men, with possible consequences that are alarming both foreign investors and Paraguay's partners in the Mercosur trade grouping.

Mr Wasmosy, who is barred from seeking a second consecutive term, is exploring every avenue to prevent Mr Oviedo continuing as the ruling party's candidate.

But his strategy of blocking the candidacy at all costs brings dangers of its own. "The risk is of forcing the country's still-weak democratic institutions, especially the justice system, beyond their limits," said political analyst Carlos Martini. Paraguay only shook off the 35-year dictatorship of General Alfredo Stroessner in 1989.

In a tangle of legal cases brought by Mr Wasmosy's supporters, Mr Oviedo has been accused of everything from plotting a coup to masterminding illegal toxic waste imports from Germany. A civil court judgment against him on any one of the charges would be enough to disqualify Mr Oviedo. He denies the accusations.

Rumours of an impending military coup have subsided after peaking last month. Oviedo loyalists were purged from the army top brass in 1996 but the former general still has strong support among retired officers and the lower ranks.

Despite Mr Wasmosy's repeated denials, members of his circle have floated the possibility of delaying the elections and extending his mandate.

The hatred between the two men has deep roots. After backing Mr Wasmosy's presidential campaign in 1993, Mr Oviedo turned into a tireless critic and sought to push his personal power to the limits.

When Mr Wasmosy ordered the general's dismissal as army head in April 1996, Mr Oviedo declined and retreated to barracks with a group of supporters, backing down only after a tense stand-off.

The incident has led US officials repeatedly to question Mr Oviedo's democratic credentials.

Rumours of an impending coup have subsided

Charges of plotting a coup were quietly laid aside until, to the horror of the party hierarchy, Mr Oviedo narrowly won the presidential primary last September. "Before Oviedo won the elections he had no legal problems," said his running mate, Raúl Cubas Grau. "Now they are using every trick in the book to keep him out. It's a personal caprice of the president."

With no backing from the party machinery, Mr Oviedo beat both Luis Argaña, the authoritarian leader of the party's biggest faction, and Carlos Facetti, preferred candidate of Mr Wasmosy's cautious modernisers.

His success stemmed from a grassroots campaign of fiery populism. Mr Oviedo speaks the same language as poorer rural voters, literally. No other national politician has mastered the indigenous language, Guarani.

But local businessman are uncertain what an Oviedo presidency would mean in practice.

He has both attacked and praised Mercosur and the country remains a centre of contraband, counterfeit goods and drug-smuggling within Mercosur, which also includes Brazil, Argentina and Uruguay.

Lawyers are working overtime to have Mr Oviedo released from the army barracks where he is being held. But the outcome of their efforts, and of the legal challenges to his candidacy, is hard to predict.

"Nothing can be discounted," said a western diplomat in Asunción. "The constitution only dates back to 1992. There are lots of ambiguities, and no case law."

One possibility is for the Colorado party to re-formulate the ticket, teaming Mr Cubas Grau with Mr Argaña. Mr Oviedo, still in his mid-50s, might be persuaded to stand aside in exchange for the chance of a future run at the presidency. Once the candidacy is finally settled, the party, with almost tribal loyalty, is expected to rally round.

The turmoil is lifting opposition hopes of a breakthrough. The Liberal party, the Colorado's historic rival, has teamed up in a national alliance with Encuentro Nacional, a new party of young, urban reformers.

"We are very optimistic because people want a change, to construct a modern country," said Carlos Filizzola, head of Encuentro Nacional and alliance candidate for vice president.

The opposition campaign, headed by the Liberal party leader, Domingo Laino, centres on a pro-free market, anti-corruption platform. It promises to divert more resources towards health and education.

But a recent unpublished opinion poll gave Colorado a seven-point lead – if Mr Oviedo ran. For the opposition and his own party's factions alike, he remains the man to beat.

Unscom chief rejects Saddam deadline

By Laura Silber in New York

Richard Butler, chief United Nations arms inspector, last night rejected a deadline set by Iraq's President Saddam Hussein for an end to the disarmament mission in Iraq, saying the UN was determined to win access to suspected weapons sites.

Before Mr Butler met Tariq Aziz, Iraq's deputy prime minister, last night in Baghdad he said he would ask the Iraqi authorities for clarification on the deadline. "I don't know when the clock starts ticking." Mr Butler's mission comes after President Saddam at the weekend threatened to expel UN inspectors within six months unless they certified Iraq had dismantled its arsenal of deadly weapons and their production facilities.

Mr Butler said: "This work can be done quite quickly with full Iraqi co-operation. It will end when it ends. To demand that it be finished at a certain stage is a degree of arbitrariness that makes no practical sense."

In a sign of mounting frustration in the Security Council over Iraqi intransigence, France yesterday criticised Baghdad for threatening to halt co-operation with the UN disarmament mission (Unscom). "Iraq must comply with the relevant Security Council resolutions... Any threatening statement is not positive at all," said the French foreign ministry spokeswoman, Anne Gazeau-Secret.

Unlike France, China and Russia which oppose military action in Iraq, the US and Britain at the weekend reiterated their readiness to use military force if diplomacy failed to make Iraq comply with UN demands. Iraq on Sunday called on all able-bodied men and women to be ready to fight a "holy war" – a *jihad* – to win the lifting of UN sanctions. UN officials said some 1,500 Iraqis yesterday massed in front of a Baghdad hotel, housing UN and foreign guests, to demand an end to sanctions, imposed after Iraq invaded Kuwait in August, 1990. Mr Butler yesterday was seeking access to scores of suspected weapons sites Iraq has placed off limits as "presidential" or "sovereign" including areas associated with the presidency – palaces, offices and resorts as well as headquarters of ministries.

Speaking to reporters, Mr Butler underscored that the Council's demands with respect to access were "crystal clear. We should find ways to show respect for Iraq's sovereignty, dignity and national security," he said. "But it cannot be to the derogation of the principle of complete access."

Warning on debt relief initiative

By Michael Holman, Africa Editor

The World Bank has warned that the credibility of its debt relief initiative for the world's poorest countries is being undermined by the failure of Paris Club creditors to reach agreement on the level of assistance they are prepared to give Mozambique.

Club officials are due to meet in Paris tomorrow, in an effort to break a deadlock which has prompted a plea by James Wolfensohn, the Bank's president.

In letters to the Club's finance ministers, he urges them to show they "can work together effectively and equitably" with other creditors" and "move ahead quickly and agree a debt relief package for Mozambique. Only if we demonstrate such an approach, will we retain the broad-based support [the initiative] enjoys".

The programme offers Highly Indebted Poor Countries (HIPC) debt reduction in return for economic reform. With per capita income of $90, Mozambique is one of the world's poorest countries.

Its external debt exceeds $5bn, nearly 10 times the value of its exports of goods and services. The government is only able to pay a quarter of its scheduled debt repayments, about $372m in 1997. The rest is forgiven, rescheduled or added to arrears which exceed $1bn.

Implementing the initiative in Mozambique has been held up by disagreement in the ranks of the Paris Club, on what proportion of their exposure to the country would be eligible for relief.

Paris Club members are owed the largest percentage of the debt, 35 per cent, with 30 per cent due to multilateral creditors and the balance to non-Paris Club creditors. Oxfam International says the cost to Paris Club members of raising the level of debt eligible for relief would be about $350m.

EU mission sets foot carefully in Algeria

By Roula Khalaf in London

A high-level European Union delegation arrived in Algiers yesterday for a 24-hour visit aimed at exploring ways Europe could help end Algeria's six-year ordeal.

UK officials said the mission, led by Derek Fatchett, UK junior foreign office minister, would mainly listen to Algerian officials and continue the dialogue with Algiers initiated by the EU at the end of last year.

The officials, from the UK, Luxembourg and Austria, are due to meet Ahmed Attaf, Algerian foreign minister, as well as members of the parliamentary opposition and editors of the independent press. The delegation will report to EU foreign ministers before a January 26 meeting.

The mission marks an attempt by the EU to gain a better understanding of the conflict and formulate policy moves that can help end Algerians' suffering.

"Our objectives are at this stage to open discussion, to enter into political dialogue, and to look for ways in which we can make a contribution to the greater humanitarian well-being of the Algerian people," Mr Fatchett said.

For the first time since the beginning of the crisis in 1992, western ambassadors in Algiers, most of whom rarely venture into public places, have begun visiting massacre sites. Both the British and American ambassadors went to Sidi Hamed last week, where over 100 died.

Algiers, which vehemently rejects attempts to intervene in its affairs, has already set the tone of the visit by refusing last week to accept a delegation at less than ministerial level and insisting the main topic be discussion of ways Europe could help them fight terrorism.

The Algerian authorities accuse several European capitals, especially those of the UK and Sweden, of harbouring terrorist networks. "We ask that Europe co-operate with us and dismantle logistical and media bases used by terrorists," said a foreign ministry official yesterday.

According to UK officials, Britain has taken action against Algerians charged with offences under the anti-terrorism act, and the government is in the process of reviewing aspects of the law. But they said Britain had to fulfil its obligation to asylum seekers.

European officials have been careful not to alienate Algiers. They have made clear the mission is not aimed at investigating massacres.

Clinton pressed on Mideast

Arabs and the EU demand tougher approach to Netanyahu

Netanyahu meets wellwishers at Tel Aviv airport AP

President Bill Clinton today holds talks with Benjamin Netanyahu, Israel's prime minister, who on Sunday won broad cabinet support to resist US pressure to revive the Middle East peace process.

Mr Clinton, under growing criticism from the European Union, Arab countries and liberal US Jewish lobbies for not applying sufficient pressure on the Israeli government, faces a formidable task in persuading Mr Netanyahu to push the peace process forward.

Washington wants Israel to hand over at least 10 per cent of West Bank land to full Palestinian control as part of the long delayed Israeli troop pullback from the occupied territories.

It also wants the Israeli government to halt expansion of Jewish settlements in the West Bank, one of the main conditions for the Palestinians returning to the negotiating table. At the same time, it has demanded that Yassir Arafat, president of the Palestinian Authority, crack down on the infrastructure of terrorism to meet Israel's security needs.

Yesterday, a Palestinian court sentenced two members of Hamas, the militant Islamic resistance movement, to 15 years' jail with hard labour, after they were charged with preparing bombs used in two suicide attacks in Jerusalem last year. Earlier this month, in co-operation with the Israeli security forces, Palestinian police found 700 kg of explosives, signalling to Israel and the US that the Palestinian Authority is making an effort to combat terrorism. Mr Arafat will meet Mr Clinton on Thursday.

Analysts believe such Palestinian efforts will not be enough to persuade Mr Netanyahu to implement the second troop withdrawal, mainly because he opposes the Oslo peace accords in principle, though, politically, he has to honour them.

His coalition, now dominated by nationalists and hardliners, is more in control of the agenda after the resignation of David Levy, the relatively doveish foreign minister. Limor Livnat, communications minister, who opposes any significant Israeli pullback, yesterday told Israeli radio it was "our job to protect our interests and not to see ourselves as some American satellite".

Mr Netanyahu had wanted to postpone the Washington visit to avoid any criticism by Mr Clinton of foot-dragging on the peace process. "He does not really want this US visit," said Martin Kramer, head of the Moshe Dayan centre at Tel Aviv University.

"Netanyahu's tactic now is to buy time for political survival, given the ideological make-up of his coalition government. He will make full use of the US media to fend off pressure from the administration."

Mr Netanyahu's advisers have cast their net widely across the American right-wing. From arrival early this morning until his departure tomorrow, they have arranged a schedule packed with public meetings and television interviews, especially with Christian fundamentalists and evangelists, staunch supporters of Israel.

Mr Netanyahu will meet Jerry Falwell, the controversial Christian fundamentalist. He will appear on Pat Robertson's television show which has a strong evangelical bias. He will meet leading republicans and give speeches and interviews to the television networks.

He will also spend time with Al Gore, vice-president, to stress the importance of Israel in Mr Gore's bid for the US presidency.

"Netanyahu is telling the administration that if it wants to confront him, it has to remember he has access to important sections of US society, through the media," added Mr Kramer.

Judy Dempsey

Mugabe acts after food price riot

By Tony Hawkins in Harare

Business in the Zimbabwe capital came to a virtual standstill yesterday for the second time in six weeks after violent protests against food price rises.

President Robert Mugabe's administration reacted quickly, demanding manufacturers cancel the 21 per cent increase in prices of the food staple - maizemeal.

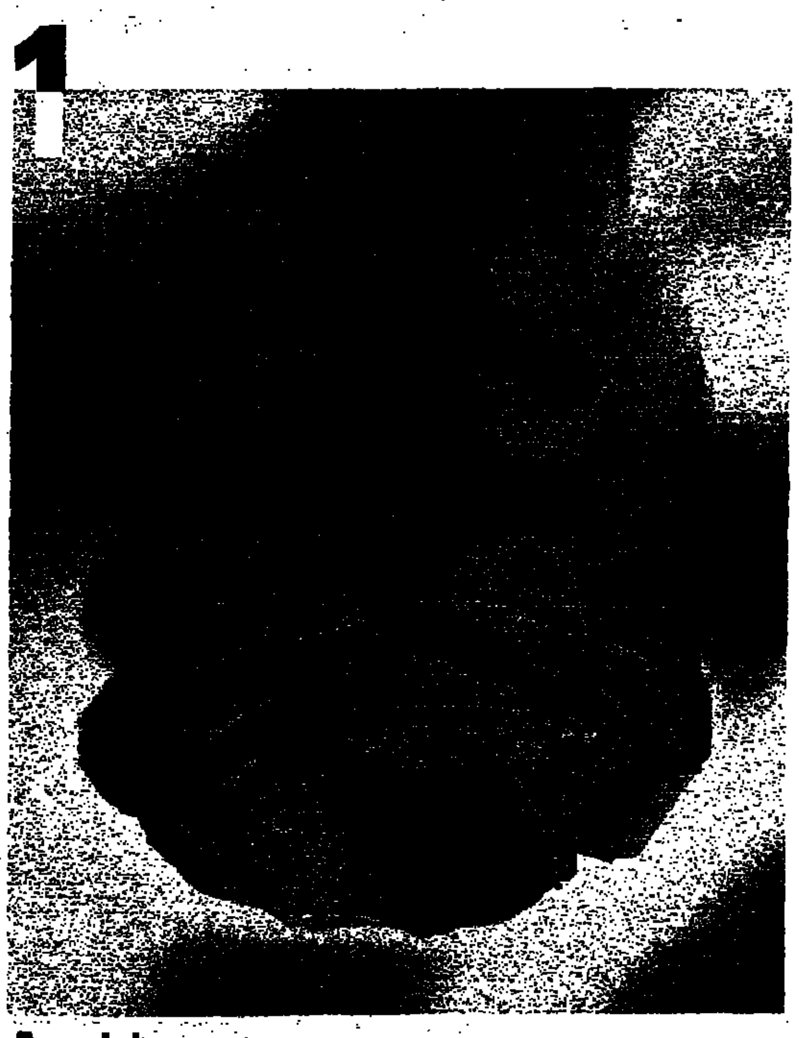
The industry minister, Nathan Shamuyarira, said government investigations showed the price rise, which was to have taken effect yesterday, was unjustified.

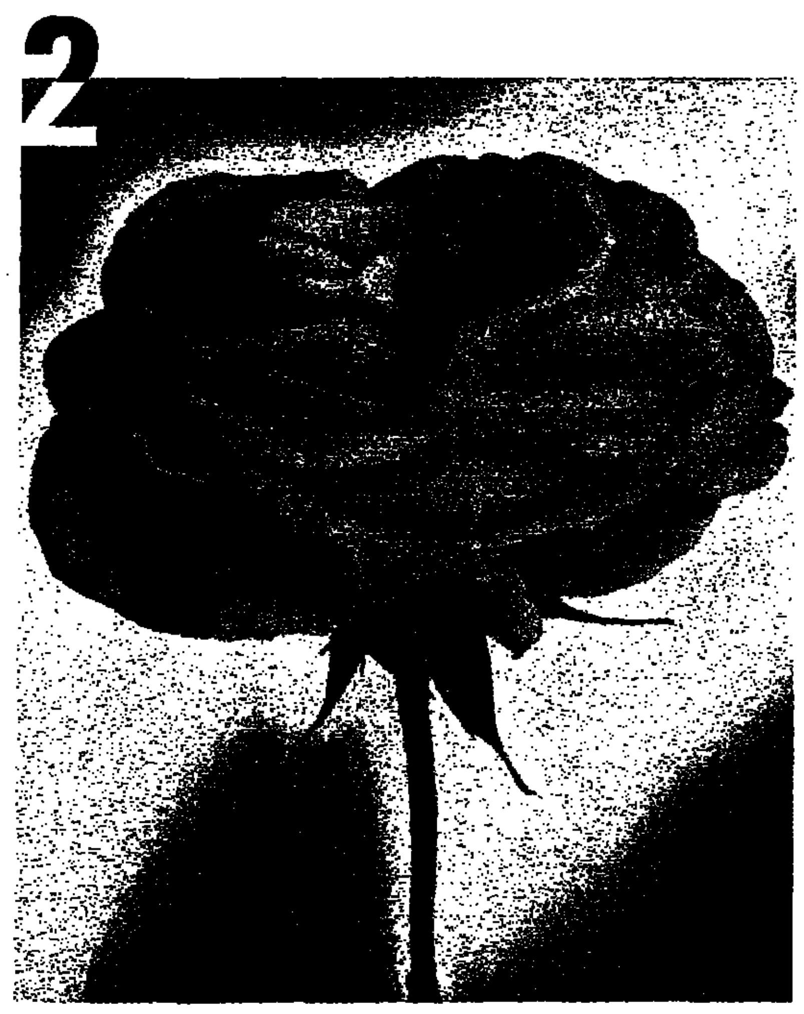
Maizemeal prices have effectively doubled since last October, with millers blaming the 140 per cent increase on their raw material costs as well as higher transport, wages and packaging expenses. It is unclear who organised the demonstrations, with the official trade union movement denying responsibility.

Some in business are blaming the information minister, who last week accused white-owned businesses of orchestrating the price increases to "avenge" the government's proposed takeover of 1,470 mainly white-owned farms. Such claims have been repeated by the official media.

The rioting occurred ahead of Thursday's meeting of the National Economic Consultative Forum, which will bring together representatives of mainstream business, government, the trade unions and indigenous business. Farm representatives hope the meeting will result in some climbdown by the government on its land resettlement policy.

The resort to price control comes when the International Monetary Fund and World Bank have delegations in Harare discussing further lending. Rescinding the maizemeal price rise will add to government spending and increase the likely budget deficit.





NEWS: ASIA-PACIFIC

Banking move boosts stocks but political rumour hits the rupiah

Indonesian shares rise on merger

By Sander Thoenes in Jakarta

Shares prices on Jakarta's stock exchange jumped 6.1 per cent yesterday after two of the country's largest banks said they would merge – the first significant step towards meeting a government pledge to restructure the banking sector.

But the rupiah crashed to Rp9,575 to the US dollar, down from Rp8,450, amid growing concern over foreign debt defaults and unconfirmed rumours that President Suharto had picked a controversial minister as his running mate for elections in March.

Bank Internasional Indonesia (BII), part of the Sinar Mas conglomerate, said it would merge with Bank Dagang Negara Indonesia (BDNI) and three small affiliated banks. BII and BDNI are the third and fourth largest listed banks, respectively, but both were hit hard by the collapse of the rupiah in recent months.

The merger, which would create Indonesia's largest bank with Rp50,000bn ($5.2bn) in total assets and Rp5,000bn in equity, follows last week's pledge by President Suharto to accelerate economic reforms agreed with the International Monetary Fund.

Standard & Poor's last week downgraded ratings of 15 of Indonesia's 225 banks, including BII and BDNI, and forecast the average rate of non-performing bank loans in Indonesia would surpass 20 per cent this year.

"We'll cut a lot of cost and increase profits," said Indra Widjaja, president director of BII. "With more profits we can make more provisions for bad loans."

The government failed to announce new banking reforms in last week's IMF agreement and is said to be split between those pressing for the closure of troubled banks and those who want large banks to bail out smaller competitors. The closure of 16 small banks in November caused depositors to flee most private banks.

News of the merger sparked a rush on bank shares but the rupiah nosedived, dashing any hopes among officials that last week's IMF package would revive trust in the currency and enable Indonesian corporate borrowers to repay more than $80bn in private offshore debt at an exchange rate they could afford.

Traders blamed the fall on continuing demand for dollars for debt payments, fears of corporate defaults on short-term paper and persistent rumours Mr Suharto had picked Bakharuddin Yusuf Habibie, minister of science and technology, as his running mate for presidential elections in March.

The rumours were sourced to a think-tank, the Centre for Strategic and International Studies, which has been highly critical of the minister.

The centre has in the past encouraged publicity of Mr Habibie's economic views, including a "zigzag theory" that called on the government to lift and then lower interest rates to boost growth, just to expose them to ridicule.

Mr Habibie appeared to have suffered a setback last week, when Mr Suharto cancelled all government support for his costly aircraft manufacturing project.

Currencies, Page 23; World Stock Markets, Page 34

Nomura faces threat of further penalties

By Gillian Tett in Tokyo

Japan's Ministry of Finance yesterday warned it might impose further penalties on Nomura Securities as a damaging new scandal erupted around the issue of corporate ethics.

The move came after two former Nomura executives and a former finance ministry official were arrested at the weekend over allegations that Nomura had bribed officials to win business.

The brokerage, Japan's fourth largest, is suspected of having spent Y2.58m ($19,200) providing lavish "wining and dining" and golf games for officials at Japan's Highway Public Corporation, a semi-government body, in 1994 and 1995. Officials claim Nomura spent the money to win lucrative contracts underwriting euro-bonds to finance road construction.

Nomura yesterday acknowledged the entertainment took place. But Junichi Ujiie, Nomura president, said: "As far as I know [our former executives] did not have any perception of wrongdoing."

The affair deals another painful blow to the country's ailing brokerage industry. Last year Nomura and three other brokers were punished for bribing racketeers to prevent disruption in shareholders meetings.

The scandal leaves the finance ministry facing mounting criticism over the way it awards underwriting government contracts. In particular, the affair has highlighted the close links which have traditionally existed between Japanese companies and government officials.

These have been reinforced by the practice of sending former senior bureaucrats to work in powerful private sector posts.

Officials at the Ministry of Finance said they would launch an internal investigation into the case. However, some suggested that the scandal was triggered by political rivalry between different government departments.

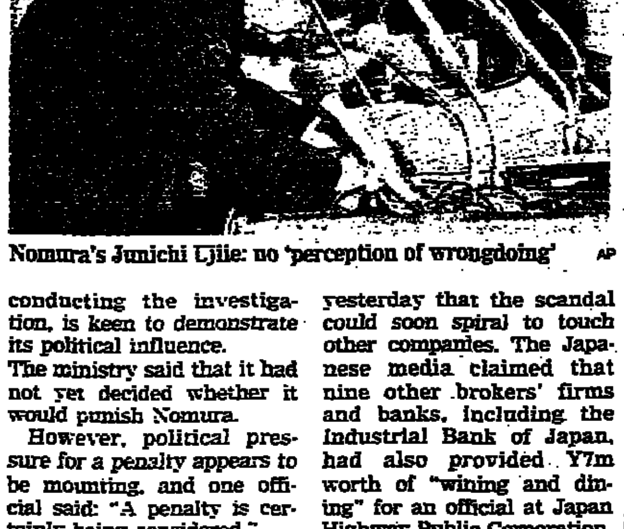
In particular, the Tokyo Prosecutors Office, which is conducting the investigation, is keen to demonstrate its political influence.

The ministry said that it had not yet decided whether it would punish Nomura.

However, political pressure for a penalty appears to be mounting, and one official said: "A penalty is certainly being considered."

Signs were also emerging yesterday that the scandal could soon spiral to touch other companies. The Japanese media claimed that nine other brokers' firms and banks, including the Industrial Bank of Japan, had also provided Y7m worth of "wining and dining" for an official at Japan Highway Public Corporation.

Brokers' results, Page 17



Nomura's Junichi Ujiie: no 'perception of wrongdoing' AP

Chaebol reform plans short of expectations

By John Burton in Seoul

Two of South Korea's biggest conglomerates, Hyundai and LG, yesterday announced restructuring plans in response to the nation's economic troubles, but these fell short of expectations for big reforms.

The programmes underscore the resistance Kim Dae-jung, the president-elect, will confront in persuading the family-run *chaebol* to slim their sprawling business empires and concentrate on core sectors.

The *chaebol* have been criticised for helping cause Korea's foreign debt crisis by borrowing to finance excess production capacity and expanding into unprofitable ventures.

Hyundai and LG announced their restructuring plans after *chaebol* leaders last week promised Mr Kim they would introduce reforms, including ending debt guarantees among subsidiaries, consolidated financial accounts, lower debt levels, and owner responsibility for mismanagement.

The Hyundai and LG programmes, expected shortly to be followed by those from Samsung, Daewoo and SK (formerly Sunkyong), addressed these goals, but were short on details. Similar restructuring plans in recent years in response to government pressure have failed to produce results.

The Hyundai plan included selling only one marginal business and the already announced delay of new ventures. These include the suspension of a Won5,600bn ($3.4bn) steel mill project in Korea, car investments in Indonesia, construction of a semiconductor plant in Scotland, and office buildings in China.

Analysts believe Hyundai, with a debt burden of 4.6 times equity, should make further cuts, including selling its troubled semiconductor and petrochemical businesses. This would allow it to concentrate on its car, shipbuilding and construction operations, all market leaders in Korea.

The LG group said it would dispose of 90 businesses valued at Won2,400bn by 1999 and another Won12,600bn by 2002 as it seeks to halve its debt burden. LG refused to disclose what businesses would be sold.

Analysts say LG should withdraw from financial services to concentrate on core chemical and electronics industries. The group is considered better prepared than other *chaebol* in restructuring, since it adopted a profit-oriented management strategy in the early 1990s that reversed the emphasis among Korean companies on market share. LG was the highest earner among the *chaebol* last year, though ranking third in sales.

Samsung is to wind down three regional headquarters in London, New York and Singapore, with corporate planning shifted to Seoul. In the European office in London, 33 of 77 people could lose their jobs, though Samsung will try to re-employ them in otherposts.

Korea reserves hold debt key

By Richard Waters in New York

The US banks which have pushed the hardest for a $25bn financial package to keep South Korea afloat seem ready to retreat from some of the main elements of their controversial plan, though much will depend on how strong a turnaround the country's finances have experienced since the beginning of the year.

Korean officials are due to present details of the country's financial position – and their own ideas for how its foreign debt should be handled – at a meeting with a group of international banks in New York tomorrow.

The meeting, with banks from 13 countries, represents the formal opening of negotiations over how to put off the repayment of billions of dollars of short-term debts and raise up to $10bn of new money to replenish the country's foreign exchange reserves.

According to soundings of some of the banks involved in the negotiations, Korea may be able to delay its return to the capital markets – which would allow it to raise new cash more cheaply when a greater degree of calm has returned. Much will depend on whether the country has been able to rebuild its reserves faster than had been expected and can point to a strong current account position in the coming months, according to these banks.

Korean officials have chafed at a plan that would force the country to issue $25bn of new securities, $15bn of it in exchange for existing debts of the country's commercial banks. The potentially high cost of such an exercise, as well as the requirement to replace bank debt rather than support it with government guarantees, have attracted criticism from Korea as well as banks in Japan and Germany.

If Korea is able to put off returning to the capital markets, it would then have more time to renegotiate short-term loans which have already been rolled over to the end of March.

Australia stands by growth forecasts

By Gwen Robinson in Sydney

John Howard, Australian prime minister, said yesterday there was no need to reassess official economic growth forecasts, despite fears that Asia's economic turmoil will hit the country's exports. He said the Australian economy remained relatively resilient in the face of Asia's woes, thanks mainly to his government's economic "fire-proofing" efforts.

His remarks triggered a political slanging match with the opposition Labor party, in an exchange that analysts saw as the first campaign salvos in what is likely to be an election year.

The Labor opposition, meeting in Tasmania at its annual national conference, dismissed Mr Howard's claim as "mad self-congratulation." Kim Beazley, opposition leader, said the government "should stop congratulating itself" and get on with strategies to protect industries at risk from the Asian crisis.

Mr Howard indicated in December that he might call an election as early as July, to resolve a parliamentary deadlock over native Aboriginal land rights.

But yesterday both the opposition and Mr Howard's conservative coalition signalled the economy was likely to be a central election battleground. Mr Beazley said tax reform and combating unemployment would be the party's top priorities.

Polls published this week showed Labor reversed its position to gain a strong lead over Mr Howard's coalition last month.

Mr Howard, speaking after his first cabinet meeting of the year, indicated the government would respond to pleas from Australian exporters for emergency trade finance guarantees to Asian markets, particularly Korea. Last week, the government's Export Finance and Insurance Corporation (EFIC) warned exporters it had virtually reached its limit for insuring exports to Korea, Australia's second-largest export market after Japan.

Private economists have downgraded their growth forecasts for the Australian economy in 1998 to an average 3.2 per cent, down from 3.6 per cent in November. But Mr Howard said the government would stand by its mid-year forecast of 3.75 per cent growth in the year to June. The official forecast for the following year to June 1999, however, was cut to 3.25 per cent.

US, China boost ties as Cohen visits air defence base

By Tony Walker in Beijing

China and the US yesterday took further steps to consolidate improved ties, with a visit to a top security air defence complex in Beijing by William Cohen, US defence secretary – the first such tour by a US defence official.

Beijing reiterated a pledge to halt sales of anti-ship cruise missiles to Iran. The US fears Tehran may use the missiles to thwart oil shipments from the Gulf.

"I must say I was very pleased to have such assurances reaffirmed by General Chi today," Mr Cohen said after talks with Chi Haotian, China's defence minister.

Mr Cohen also signed a Military Maritime Consultation Agreement designed to prevent accidents at sea. This follows a near-collision in international waters in 1996 between Kitty Hawk, a US carrier, and a Chinese submarine.

US access to the top-secret Air Defence Command Centre in central Beijing is seen as something of a symbolic breakthrough, though it is not clear whether the complex is the nerve centre of China's air defences.

A Chinese official said the facility tracked thousands of aircraft in the region daily and could be used to direct defences across China against missile or air attack.

The warming of Sino-US ties contrasts markedly with the chill which followed a visit to the US in 1995 by President Lee Teng-hui of Taiwan. Beijing reacted to the visit by firing missiles into waters off Taiwan, prompting widespread international condemnation.

A summit in Washington last October between President Bill Clinton and Jiang Zemin, his counterpart, provided fresh foundation for improved relations. Mr Clinton is expected to visit China this year. The US has been pressing China's military to display greater openness.

Defence officials say that heightened dialogue will improve the security outlook in the Asia-Pacific region.

Mr Cohen declared that the maritime consultation agreement was evidence of a "maturing relationship between our militaries". The agreement would increase understanding and reduce the chances of miscalculation.

Beijing said the agreement "serves fundamental interests of our two peoples and contributes to peace and stability in the Asia-pacific region and the world at large". Mr Cohen is due to meet President Jiang today before leaving for Japan and South Korea. He has visited Indonesia, Thailand, Malaysia and Singapore on his tour.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	4.2	5.4	7.65	8.84	3.61
1989	1.0	4.2	8.99	8.50	3.43
1990	3.6	5.5	8.06	8.55	3.60
1991	6.0	3.7	5.87	7.86	3.21
1992	12.5	1.9	3.75	7.00	2.95
1993	11.6	1.1	3.22	5.86	2.79
1994	6.2	1.4	4.67	7.08	2.86
1995	−0.2	2.1	5.93	6.57	2.61
1996	−3.2	4.6	5.41	6.43	2.15
1997	−3.5	4.6	5.59	6.34	1.73
1st qtr.1997	−3.9	4.4	5.47	6.56	1.87
2nd qtr.1997	−4.9	4.2	5.68	6.69	1.83
3rd qtr.1997	−3.3	4.7	5.55	6.24	1.64
4th qtr.1997	−1.6	5.2	5.63	5.90	1.60
January 1997	−3.8	4.6	5.47	6.56	1.90
February	−3.5	4.5	5.40	6.42	1.84
March	−4.5	4.1	5.55	6.70	1.87
April	−5.2	4.3	5.71	6.88	1.95
May	−4.9	4.2	5.69	6.70	1.81
June	−4.7	4.1	5.65	6.48	1.73
July	−4.2	4.2	5.58	6.21	1.64
August	−2.8	4.8	5.56	6.32	1.64
September	−3.0	5.0	5.51	6.20	1.63
October	−2.1	5.2	5.55	6.02	1.60
November	−1.5	5.2	5.64	5.86	1.61
December 1997	−1.2	5.2	5.71	5.80	1.58

JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.6	5.31	5.16	0.48
1990	2.6	8.5	7.62	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	−0.4	3.78	5.24	1.00
1993	3.0	1.4	2.95	4.18	0.87
1994	5.4	2.9	2.23	4.20	0.78
1995	8.2	3.2	1.22	3.39	0.86
1996	13.7	3.1	0.58	3.03	0.75
1997	8.8	3.8	0.59	2.19	0.87
1st qtr.1997	9.7	2.8	0.54	2.43	0.88
2nd qtr.1997	8.7	2.8	0.56	2.42	0.83
3rd qtr.1997	8.1	2.9	0.61	2.16	0.82
4th qtr.1997	8.7	3.8	0.66	1.75	0.96
January 1997	10.0	3.2	0.53	2.49	0.86
February	9.8	3.0	0.54	2.44	0.88
March	9.3	2.8	0.55	2.36	0.89
April	8.8	3.2	0.54	2.24	0.88
May	9.0	3.1	0.56	2.55	0.81
June	8.4	2.8	0.58	2.48	0.80
July	8.2	3.0	0.64	2.30	0.79
August	8.3	3.2	0.60	2.13	0.82
September	7.7	2.9	0.58	2.02	0.86
October	7.9	2.9	0.53	1.79	0.90
November	8.9	3.2	0.56	1.74	0.98
December 1997	9.3	3.8	0.87	1.71	1.00

GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	9.7	6.4	4.34	6.46	2.61
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.66	2.11
1991	5.1	5.6	9.25	8.42	2.38
1992	7.0	8.1	9.52	7.80	2.45
1993	9.4	7.8	7.28	6.47	2.11
1994	9.6	9.0	5.36	6.86	1.77
1995	3.7	0.6	4.53	6.82	2.00
1996	10.5	7.5	3.31	6.21	1.81
1997			3.32	5.65	1.45
1st qtr.1997	10.3	7.7	3.19	5.72	1.52
2nd qtr.1997	9.2	6.5	3.18	5.82	1.53
3rd qtr.1997	9.0	5.9	3.24	5.61	1.34
4th qtr.1997			3.68	5.48	1.42
January 1997	11.1	8.7	3.14	5.79	1.55
February	10.1	7.4	3.19	5.58	1.50
March	9.8	7.0	3.26	5.76	1.49
April	9.3	6.5	3.23	5.90	1.60
May	9.3	6.5	3.17	5.80	1.52
June	9.0	6.4	3.14	5.75	1.46
July	9.8	6.2	3.14	5.56	1.33
August	9.1	6.0	3.26	5.66	1.32
September	8.2	5.5	3.31	5.60	1.38
October	6.5	5.1	3.58	5.58	1.37
November	6.7	4.8	3.74	5.56	1.48
December 1997			3.73	5.32	1.40

FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	3.9	8.2	7.94	9.08	3.69
1989	7.6	10.0	9.40	8.79	2.88
1990	3.8	9.3	10.32	9.92	3.19
1991	−4.7	2.3	9.62	9.03	3.59
1992	−0.2	5.4	10.36	8.57	3.55
1993	1.3	−3.0	8.55	6.75	3.21
1994	2.5	1.5	5.84	7.21	2.99
1995	7.5	4.4	6.60	7.53	3.17
1996	0.8	−3.4	3.94	6.32	3.05
1997			3.46	5.56	2.58
1st qtr.1997	2.0	−2.8	3.35	5.57	2.63
2nd qtr.1997	2.7	−0.7	3.44	5.72	2.61
3rd qtr.1997	6.0	0.5	3.41	5.47	2.41
4th qtr.1997			3.65	5.49	2.48
January 1997	0.9	−3.5	3.35	5.69	2.71
February	0.5	−3.7	3.33	5.39	2.52
March	2.0	−2.8	3.37	5.59	2.63
April	2.2	−2.1	3.40	5.79	2.86
May	2.8	−1.7	3.48	5.70	2.82
June	2.7	−0.7	3.43	5.66	2.76
July	5.4	−0.3	3.39	5.42	2.39
August	5.9	0.0	3.43	5.53	2.41
September	6.0	0.5	3.41	5.47	2.42
October	7.5	1.1	3.59	5.59	2.43
November	6.5	1.0	3.69	5.58	2.57
December 1997			3.69	5.33	2.44

ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	7.8	8.7	11.24	10.54	2.71
1989	7.2	9.2	12.42	11.61	2.46
1990	9.2	10.1	11.98	11.87	2.84
1991	7.3	8.5	11.83	13.20	3.45
1992	6.9	7.7	13.86	13.29	3.63
1993	4.7	7.4	10.22	11.23	2.35
1994	6.6	5.1	8.48	10.56	1.67
1995	0.4	0.4	10.38	12.22	1.72
1996	1.0	3.3	8.75	9.43	2.19
1997			6.83	6.83	1.91
1st qtr.1997	8.3		7.29	7.44	1.97
2nd qtr.1997	8.7		6.92	7.39	2.18
3rd qtr.1997	9.9		6.79	6.52	1.79
4th qtr.1997			6.35	6.02	1.69
January 1997	7.5		7.20	7.43	1.98
February	8.7		7.29	7.15	1.86
March	8.9		7.39	7.71	2.05
April	8.6		7.09	7.73	2.18
May	8.7		6.83	7.35	2.22
June	6.8		6.85	7.08	2.16
July	9.7		6.87	6.53	1.85
August	11.0		6.86	6.67	1.80
September	9.0		6.63	6.36	1.72
October	9.4		6.62	6.21	1.68
November	7.7		6.45	6.14	1.74
December 1997			6.01	5.74	1.66

UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	6.8	17.1	10.41	9.62	4.48
1989	5.9	17.4	13.96	10.11	4.36
1990	5.3	15.9	14.82	11.56	5.07
1991	2.4	7.9	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.91
1993	4.9	3.5	5.99	7.40	4.01
1994	6.4	5.1	5.57	8.01	3.94
1995	5.9	7.3	6.77	8.16	4.15
1996	6.7	10.0	6.11	7.79	4.08
1997	6.3		6.94	7.02	3.59
1st qtr.1997	6.6	10.8	6.34	7.39	3.79
2nd qtr.1997	6.1	11.2	6.60	7.29	3.74
3rd qtr.1997	5.7	11.7	7.21	6.95	3.49
4th qtr.1997	6.8		7.58	6.46	3.37
January 1997	7.1	10.0	6.41	7.53	3.83
February	6.4	11.2	6.29	7.17	3.73
March	6.4	11.1	6.32	7.44	3.80
April	5.9	10.5	6.48	7.61	3.85
May	6.1	11.4	6.55	7.15	3.66
June	6.3	11.7	6.77	7.10	3.70
July	5.8	11.9	7.07	7.01	3.57
August	5.0	11.6	7.25	7.05	3.48
September	6.2	11.6	7.31	6.78	3.41
October	6.5	10.8	7.38	6.47	3.31
November	6.9	10.6	7.65	6.59	3.47
December 1997	6.9		7.71	6.33	3.33

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. *Interest rates:* short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. *Equity market yield:* period averages of the gross dividend yield on the relevant FT-A world index.

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Currency devaluations and smaller number of passengers force Cathay Pacific to cut 760 jobs

Aircraft makers' confidence dented

By John Ridding in Hong Kong and Michael Skapinker in London

As Asia's financial crisis mounted, aerospace manufacturers put on their most cheerful face. Asians would still need to travel, they said, and airlines would need to replace their ageing aircraft.

That confidence has taken several knocks in the past few days. Last week, Philippine Airlines said it was cancelling an order for four Boeing 747-400s. Malaysia Airlines System said it was talking to Boeing, the US manufacturer, about delaying the delivery of 20 aircraft by up to five years.

And yesterday Cathay Pacific, the Hong Kong-based carrier, announced 760 job cuts and warned of further misery. David Turnbull, managing director, said: "Last year was a very bad year and 1998 shows little hope of improvement. Just six months ago I would never have thought we would be forced to resort to such painful measures as this."

A reduction in traffic in both the business and tourist market, the devaluation of other regional currencies and even the impact of a lethal new strain of flu have seen regional passenger loads plunge.

In December – "a truly appalling month", according to the airline – revenue from Japan was down 60 per cent year on the year, if calculated in Hong Kong dollars and almost 50 per cent lower for Korea.

Announcing the staff cuts, Cathay officials said they had no plans to cancel the 10 aircraft due for delivery this year, or the three for 1999. But it had put seven 747-200s up for sale and was deferring some of its options.

Cathay currently holds options for nine Airbus Industrie A340s and A330s between 1999 and 2003. The number will remain constant, but the timetable is being pushed back. For instance, options due next year will be pushed back to 2000. It is a similar situation for the airline's 16 Boeing options over the same period.

Cathay Pacific sporting its new colours: '1998 shows little hope of improvement'

Airbus and Boeing said that although airlines might not exercise their options, they expected all firm orders by Asian carriers to go ahead. Boeing said one third of the 550 deliveries it planned to make this year would be to Asian airlines. Many of those were to Chinese carriers, which Boeing expected to remain unaffected. Airbus said 27 per cent of its expected 235 deliveries this year were to Asia.

Both manufacturers insist they have had no cancellations so far. Boeing accepted that some airlines might not exercise their options but said it had yet to be notified of a cancellation. It had heard nothing officially from Philippine Airlines.

The manufacturers say the airlines need to replace outdated aircraft which are expensive to run. Boeing said: "Purchasing airplanes is a long-term decision that you make for 10 or 15 years. We look at the Asian crisis as a short-term problem that will resolve itself."

Many analysts are less sanguine. "Cathay is being hit hard by the regional devaluation in terms of demand and traffic," said one aviation industry consultant. "But the plus side of Hong Kong's fixed exchange rate means that at least the US dollar purchase price of aircraft is staying constant. That marks a big contrast with Indonesia or Thailand, where a jumbo has just become 50 per cent more expensive over the past six months."

Jim Eckes, managing director of Indoswiss, the aviation industry consultancy, said: "Garuda [of Indonesia] has delayed payments on some A330s. Korean Airlines is due to take delivery this year of 10 or 11 aircraft, and I don't see how they can possibly pay for them."

First Pacific bucks Asian trend, Page 18

EU industry relieved at move to lift tallow ban

By Daniel Dombey in Brussels

European producers yesterday reacted with relief to European Union plans which would overturn a ban on the use of certain animal products in the soap and cosmetics industries.

Late last week a committee of officials from member states backed proposals which would allow the use in both industries of treated products derived from tallow, a fatty substance produced by cooking animal carcasses.

The proposals are set to become law by mid-February, after approval by the European Commission. They would end a ban which has legally been in place since July last year. The ban has not been enforced, but has caused considerable legal uncertainty.

Products made with tallow or tallow derivatives represent 60 per cent of the Ecu37.7bn ($40.8bn) European cosmetics market and an even higher proportion of the EU's soap market.

"We are very relieved," said Rory Macmillan of the European Cosmetic Toiletry and Perfumery Association. "We seem to be the first industry to have got through the legal nightmare that all these supposedly anti-BSE steps had created."

Last year, the European Commission approved several initiatives to reduce the risk of BSE or "mad cow disease" by controlling the use of the animal parts which pose the greatest risk of carrying the disease, such as brains, eyes and spinal cords. In the US, which tops up the EU supply of tallow with imports of $120m a year, such parts are usually left in carcasses used for tallow.

One initiative, which was approved by the Commission in January and which came into force in July, technically banned the use in soap and cosmetics of tallow and tallow derivatives which might contain the risk materials. It is this initiative that the Commission is set to revise.

Another step, backed by the Commission in July, overlaps with the tallow ban, but would also ban a wider range of animal products from other products such as pharmaceuticals. This measure was initially planned to take effect on January 1, but was delayed until April 1 after trade tensions with the US.

"The cosmetics ban was changed because member states felt they could not wait until April 1 to see how the wider situation would be resolved," said an EU official.

Mr Macmillan said that as soap and cosmetics were applied to the skin, they were a different case from pharmaceuticals, which were ingested. "Even where the tallow is not treated, the risk of catching BSE from a soap or cosmetic is about 1 in 10bn," he said.

EU acts over cheap Russian fertilisers

By Alison Maitland

European Union fertiliser prices will rise over the next few months after member states agreed anti-dumping duties on imports of ammonium nitrate from Russia to combat fraud, industry and government officials said yesterday.

The duty of Ecu28.2 ($30.5) a tonne, which has to be approved by the full European Commission and the council of ministers, will replace the minimum import price, currently Ecu102.9, in force since 1995.

The duty, agreed by the Commission's anti-dumping advisory committee, will be on top of import duty of 6.8 per cent, and will mean a small increase in costs for importers, according to the Commission.

The minimum price has proved difficult to enforce and fraud has been a problem, *particularly in the UK*, according to a government official. Imports have been declared at the minimum price but then sold for less on the market.

Customs & Excise have been investigating the issue for the past 18 months.

The dumping duties were warmly welcomed by European fertiliser producers. Cheap imports from Russia have captured nearly 20 per cent of the market and have been a running sore for EU manufacturers who have seen their prices dragged down.

Ammonium nitrate is the second most important artificial fertiliser in the EU, with about 6m tonnes used each year, mainly by UK, French and Spanish farmers, according to the European Fertiliser Manufacturers' Association.

Last summer, ICI Fertilisers, the UK's largest manufacturer, cut prices by 12 per cent or more, blaming cheap Russian imports and excess stocks. Barry Higgs, director general of the UK Fertiliser Manufacturers' Association, said yesterday UK prices would rise by £10 to £20 a tonne to about £120 by April.

The farming industry has been badly hit by the strength of sterling and would not be able to absorb bigger increases, he said. "What I hope will happen is that the speculative and irresponsible Russian trade in fertilisers will be seen off."

He expected established *Russian exporters to drop* their prices to offset the impact of the duty. Poland and Ukraine, which do not face the same restrictions, were also keen to export ammonium nitrate. But another European industry official said prices would rise "very significantly", at least in the short term.

The decision was attacked by Boris Korotoff of SHB Trading, a UK-based fertiliser distributor. He said the new duty was a victory for EU manufacturers but flew in the face of depressed prices for farm commodities.

Action to curb rise in piracy urged

By Christopher Adams, Insurance Correspondent

Increasingly violent pirate attacks on merchant seafarers have prompted demands for better policing of the high seas. The number of seamen killed in such attacks doubled last year and China has become a "safe haven" for marauders, according to a report published yesterday.

"It's the brutality of the attacks and the fact that the pirates are never caught which is causing us concern. Everybody thinks ships are fair game and the psychological damage done to crews is immense," said Eric Ellen, executive director of the International Maritime Bureau (IMB), which produced the report.

Piracy is punishable by death in some countries, including Britain, but tough laws have been undermined by lax policing. Attacks off Indonesia, for example, whose coastal waters extend across a huge area, accounted for almost half of 1997's total of 229, up from 188 two years ago.

More pirates are armed – only one attack last year involved an unarmed bandit – and there were over 50 crew members killed.

The IMB, a division of the International Chamber of Commerce, urged countries to clamp down on piracy. It said many attacks went unreported because authorities and shipowners were embarrassed.

Some countries appeared to encourage the pirates. Captured cargoes of cigarettes, spirits, sugar and timber, were frequently admitted to Chinese ports and the vessels later ransomed, said the IMB. Pirate crews were highly organised and knew the movements of ocean-going ships.

In one instance, armed Tamil rebels strafed a Panamian-registered bulk carrier with machine gun fire, killing 33 and injuring 17. Another attack involved a decoy boat, which distracted the crew of a Liberian tanker, while two motor launches crept up behind.

Mr Ellen expressed concern that the shipping industry was doing too little to stamp out the attacks. He said only a few vessels were fitted with recorders similar to the "black boxes" installed in aircraft.

If the attacks continued to rise, marine insurers could raise premium rates. Many captured ships were left abandoned, posing a risk to other shipping. "It can't escape the notice of insurers," said Mr Ellen.

NEWS DIGEST

GEC Alsthom in train deal

GEC Alsthom, the Anglo-French transport and power engineering joint venture to be launched on stock markets this spring, yesterday announced a substantial new contract in Singapore. The company has won a S$265m (US$153m) order to supply the Singapore Land Transport Authority with 25 six-car electric multiple unit trains for a new 20-km underground line.

The line will connect the World Trade Centre to the north-east section of Singapore through 16 stations. Commissioning of the fully automatic subway is scheduled for completion in 2002, with the first trains to be delivered in 2001. The contract contains an option for the full maintenance for up to 30 years.

This latest indication of the company's confidence in the Asian region comes just three days after it said it believed there was "currently no major risk" associated with its continued support of a Korea high-speed train project. As co-leader of the TGV Korea Consortium, the group in 1994 signed a $2.1bn contract to equip the new high-speed line from Seoul to Pusan. *David Owen, Paris*

■ INDIAN CAR PLANT

Local parts hitch for Skoda

Skoda Automobiliva, the Czech carmaker which is majority-owned by Volkswagen of Germany, may have to postpone its plans to build a $300m assembly plant in India because of a requirement to supply 70 per cent of parts locally after five years. Skoda signed a memorandum of understanding with the Indian state of Maharashtra last October and announced it hoped to select a site by the end of 1997 to produce 50-60,000 Skoda Felicias a year.

But Imran Hassen, Skoda's director in India, said the company might have to wait five years until a network of reliable suppliers could be built up. "We cannot make an internationally competitive product in India with 70 per cent localisation in five years," Mr Hassen said.

A spokesman for Skoda said the company was conducting a feasibility study for the project and needed to discuss with the Indian government a realistic timetable for supplying parts locally. "The ball is on the Indian government side," he said. "We need to agree a framework for co-operation." *Robert Anderson, Prague*

■ RUSSIAN GAS

Poland in barter agreement

Gazprom, the Russian natural gas supplier, has signed a barter deal worth $340m with Poland for a part of this year's 7.5bn cu m gas deliveries, according to Rem Wiachiriew, the company's chief executive. The deal covers deliveries to Russia of $175m worth of Polish goods and services. Another $165m of Gazprom's proceeds will be spent on constructing the 682km Polish section of a 4,000km gas pipeline linking the Jamal fields in Siberia with western Europe.

Mr Wiachiriew said yesterday that barter payments would account for 70 per cent of the value of the agreement signed with Bartimpex, a private Polish company which supplies gas to the state-owned Polish Oil and Gas Company (PGNiG), which in turn distributes the fuel inside the country. The agreement covered this year's payments and outstanding sums for last year's deliveries.

Last year Poland produced around 4bn cu m of gas and imported a further 7bn cu m mainly from Russia. The first nine months of the year saw Russian gas imports cost Poland $360m. *Christopher Bobinski, Warsaw*

■ LARGE DIAMETER PIPES

British Steel in Europipe pact

British Steel yesterday said it had reached an agreement with AG der Dillinger Hüttenwerke (DH) and Mannesmannröhren-Werke (MRW) of Germany to combine its large diameter pipe businesses with those of Europipe.

Each company will have a one third shareholding in the enlarged Europipe. British Steel said it would contribute its wholly-owned subsidiary, British Steel Large Diameter Pipes to the venture. Europipe, which was founded in 1991 by DH and MRW, operates pipe mills in Germany, France and the US with a turnover of more than DM1bn ($547m) a year. *AFX, London*

NEWS: UK

Big excess of government spending over tax revenues unlikely to dent deficit forecast

Surprise increase in state borrowing

By Robert Chote and David Wighton

An unexpectedly large bill for public spending left the government borrowing more than City of London economists had predicted last month, but the government is still expected to undershoot its deficit forecast for the year.

The government spent £1.4bn ($2.3bn) more than it raised from taxes last month, the Treasury said yesterday. City of London analysts had expected a public sector borrowing requirement of just £300m.

The Treasury said the figures were in line with the forecasts made by Gordon Brown, the chancellor of the exchequer, in his Green (provisional) Budget last year. That predicted a borrowing requirement of £9.5bn in the financial year as a whole, but many City economists believe this is too pessimistic.

In the first nine months of the financial year, the government has had to borrow £6.1bn. This is well down from the £16.3bn required in the same period last year. The decline reflects both strong economic growth – which boosts tax revenues and cuts benefit spending – and a continued tightening of budgetary policy.

The December figure was flattered by £2.6bn in receipts from the government's "windfall tax" on privatised utilities, which will be used to fund Mr Brown's welfare-to-work initiative for young unemployed people.

Government spending was £2.4bn higher in December than in December 1996. But £1bn of this was accounted for by higher interest payments, reflecting the government's desire to concentrate the payment of interest on gilt-edged securities (government bonds) in June and December. Excluding this factor, core government spending was still more than 5 per cent up on December 1996. But Treasury officials said November's figure was unusually low.

● The opposition Liberal Democrat party yesterday released figures compiled by the House of Commons library which suggested that the government's cyclically adjusted current balance – which excludes capital investment and takes account of the state of the economy – would register a £13.4bn surplus in 1999-2000.

Malcolm Bruce, the party's Treasury spokesman, said the figures implied the government would have enough to stop issuing gilts (bonds) in a year.

Robert Chote, Page 15
Lex, Page 16

The British tourism industry is growing in spite of the strength of sterling, the government insisted yesterday. Chris Smith, chief minister of culture, said in the House of Commons that the number of tourists coming to Britain had increased by 1 per cent in the first 10 months of 1997.

The issue was raised by Michael Fabricant, an opposition Conservative MP, who said the pound was now worth DM3 and $1.67. "What hope is there for attracting foreign visitors to the UK when going out to a restaurant in London is about twice the price of going out to a restaurant in New York?" he asked.

Mr Smith replied: "Despite the strength of the pound, overall for the first ten months of 1997 ... overseas visits and expenditure were both up by 1 per cent compared with the same period in the previous year."

Sixth murder in three weeks blights talks

By John Murray Brown in Dublin

The Northern Ireland talks were again overshadowed by the paramilitaries yesterday, as parties adjourned a session about internal political arrangements for the region on news of the murder of a prominent anti-republican "loyalist".

The breakaway Irish National Liberation Army, which has never declared a ceasefire, claimed responsibility for the killing in apparent retaliation for four murders of Roman Catholics by the renegade Loyalist Volunteer Force. The LVF rejects the ceasefire observed since 1994 by older anti-nationalist paramilitary organisations.

The ostensible "justification" for the LVF campaign was to avenge the death of Billy Wright, leader of the LVF, who was gunned down last month inside the top security Maze prison by INLA inmates.

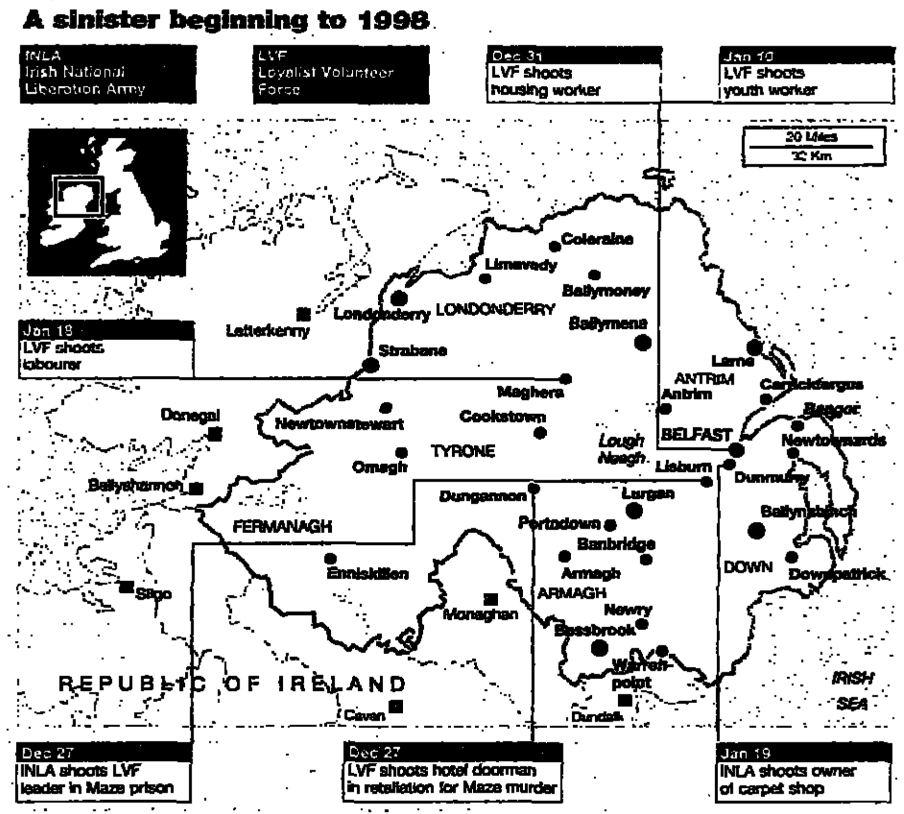
But the exact motives of both organisations are obscure. Martin McGuinness, chief negotiator for Sinn Féin, has openly accused the Ulster Defence Association of colluding with the LVF. The Ulster Democratic party, political wing of the Ulster Defence Association, is attending the talks; Sinn Féin is the political wing of the Irish Republican Army.

As parties inched towards a final settlement, there was always an an expectation that extremists on both sides would intensify their campaign to encourage fear and suspicion in the two communities in Northern Ireland. Security officials are surprised more by the timing, given that there are several months to a possible settlement.

Indeed, it is an irony that the future of the talks would now appear to be in hock to two small terror groups both of whom oppose the process and the terms of a likely settlement outlined by the two governments last week.

If the IRA stay out of the bloodletting, security officials believe the danger to the process is containable.

A sinister beginning to 1998



But the more indiscriminate the LVF revenge attacks become, the more pressure there will be on the IRA to join the fray. To date, anyone wearing a Gaelic football jersey has been a target for the overtly sectarian LVF. Two officials of the Gaelic Athletic Association, the sports body, were murdered before the latest spate of LVF killings.

The challenge to Sinn Féin is mounting – not just from within its own ranks, but from INLA and now the newly formed 32-county sovereignty committee, whose leader Bernadette Sands, sister of the hunger striker Bobby Sands, yesterday called on Sinn Féin to demand a date for British withdrawal from Ireland.

The Irish government hope some confidence can be restored by a British move over "Bloody Sunday", the day 25 years ago on which 14 nationalist civil rights protestors were killed by British soldiers in Londonderry, near the republic's border. The Irish government feels there should be a new independent inquiry. A UK government announcement is expected this week.

N Ireland bankruptcies 'may increase'

Report says more business failures could follow strengthening pound and planned spending cuts

By John Murray Brown in Dublin

A series of business failures in Northern Ireland over the past three weeks has raised fears that 1998 could see a sharp increase in bankruptcies, reversing the trend of the past decade.

Coopers and Lybrand, the accountants, warn in a report to be published this week that the situation could worsen if sterling strengthened further and the UK government pursued plans to cut public expenditure for the region, already set for a 2 per cent real fall over the next three years.

"If, in mid June, when the government's comprehensive spending review is due, current estimates are revised downwards, this could significantly increase the number of companies in trouble," says Stephen Kingon, partner at Coopers.

The crisis in the beef industry, which accounts for 15 per cent of Northern Ireland exports, has had a knock-on effect on demand in the wider economy.

The arrival of the UK retail multiples has coincided with changing consumer preference and has forced suppliers in the food sector to drop margins to maintain volumes – with the resultant impact on profits.

The Coopers business confidence report, which surveys 600 companies, will show that while volume exports have increased, profitability at Northern Ireland companies is falling. Particularly at risk from the rise in sterling are those companies dependent on exports.

In addition, the increase in interest rates since Labour came to power has hit a number of companies, already heavily dependent on bank debt to support their operations. Local businessmen say the banks have also become less willing to extend credit.

Elizabeth Alexandra, a mail order children's clothes manufacturer in Dromara was hit when Northern Bank halved its overdraft facility. Only a few weeks earlier, the company had been in the market looking for venture capital opportunities. Since mid December two bakeries, an engineering firm, two clothing manufacturers and a plastics company have either been put into receivership or have gone into liquidation.

Last weekend, O'Hara's, a Belfast bakery founded in 1905, announced that it was closing. Grant Thornton, the accountancy firm, are acting as liquidators. Last month, Coopers was named liquidator to Kennedy's, another Belfast baker, which was closed with the loss of 90 jobs.

Last Thursday there was a creditors' meeting to appoint a liquidator to Greenbank Plastics, a Newry company making accessories for the motor industry. The company said it had considered a restructuring, but "the situation has deteriorated significantly and we had no alternative but to cease trading".

Coopers were also appointed receivers last week at Energy Conservation Systems, a high-tech company in Lisburn. Ironically ECS was a "victim" of the improved political situation, because much of its business was supplying specialist security door fittings.

Insurers' group in US governance tie-up

By Jane Martinson, Investment Correspondent

The Association of British Insurers announced a link-up with a US corporate governance group yesterday in a further sign of increased competition in the voting services arena.

The announcement from the organisation, which represents many of the UK's leading institutional investors, comes a week after the National Association of Pension Funds launched its own tie-up with Institutional Shareholder Services of the US.

Both groups are keen to present themselves as offering the best service on corporate governance to their members. The ABI is also to put its voting service, which offers information and recommendations on certain issues in annual reports, online in the next few days.

Richard Regan, head of investment affairs at the ABI, said the group's aim was to provide up-to-date information to its members and "resolve any corporate governance problems, which are taken up with companies the moment they arise".

The NAPF indicated last week that it was time institutional investors "got their act together" over corporate governance. Mr Regan rejected any suggestion that the ABI and its members did not take corporate governance seriously and said its voting record now reached more than 80 per cent. The link with ISS was a development on a voting product which had been launched four years ago, he said.

The deal with the ISS, which is similar to that agreed with the NAPF, allows UK investors to find out more about US companies and vice versa.

Mr Regan said ISS had been chosen as it provided comprehensive information about US companies. ISS provides proxy voting and corporate governance services to more than 400 institutional clients in North America, Europe and Australia.

David Dando, director of ISS Europe, said that shareholder links would become increasingly important. He cited a recent survey which found that, while US pension funds invested $117bn outside the US in 1992, they were expected to invest some $700bn in 1999.

Curb on train leasing companies opposed

By Charles Batchelor, Transport Correspondent

Direct regulation of rolling stock leasing companies (roscos) in the privatised railway industry is unnecessary and could push up the price of new trains, Oxford Economic Research Associates, the independent economic consultants, say today.

There are no serious barriers to new entrants to the rosco industry and there are sufficient controls in existing or proposed new competition legislation, their report says. It was commissioned by Stagecoach, owner of bus and train operating companies and of Porterbrook, one of the three roscos sold by the government.

The findings contradict criticisms by John Prescott, deputy prime minister and chief transport minister, and by John Swift, the rail regulator, who have both called for regulation of the roscos, which finance locomotives and cars for the train operating companies.

The three roscos created on the break-up of the state network were exempted from regulation applying to the rest of the privatised rail industry. They have become the subject of controversy after being sold for large profits by their original buyers and following claims that they were failing to finance new trains.

Interfering with the terms of the initial leases would introduce an element of regulatory uncertainty into the rolling stock market and would be likely to increase the cost of capital in the sector, the report said.

The report's authors, Alexander Ljungqvist and Derek Holt, cast doubts on claims that the three existing roscos will continue to dominate the market and impose unacceptable terms on the train operators when the present leases expire.

New rolling stock is being designed for use throughout the network – unlike the past when trains were built for use on specific routes. If there are short-term difficulties when leases come up for renewal, because of the lead times to order new trains, there are several alternatives to regulation, the report said.

The new competition act, which is passing through parliament, will give powers to the rail regulator to prevent unfair discrimination. Train companies could also seek a referral of the roscos to the Monopolies & Mergers Commission.

● Porterbrook is to place a second speculative order for £25m ($40.75m) of new diesel trains. They will be built by Adtranz in England.

UK NEWS DIGEST

Union threat to airport rail link

The £550m ($896.5m) fast rail link between Heathrow airport and central London, which opened in a restricted form yesterday, faces the prospect of industrial action after managers said they would not recognise the Amalgamated Society of Locomotive Engineers and Firemen (Aslef), the main trade union for train drivers. They said they would expect drivers to help passengers with luggage, sell tickets and even clear litter.

Aslef said it was seeking a meeting with managers and demanding recognition. It said it was opposed to any dilution of drivers' skills or distractions from their responsibilities for safety on the Heathrow Express service.

The new service from London Paddington station direct to Heathrow will be quicker and more expensive than the existing service on the London Underground service, which follows a different route and stops at several stations before reaching the airport. Heathrow Express trains will initially run to a station 3km from Heathrow where passengers will transfer to buses. The full direct service is due to start in June. *Charles Batchelor, London*

■ FUNDS ADMINISTRATOR JAILED

Trust man used client accounts

A Jersey-based trust and company administrator, who turned in desperation to a Nigerian "get rich quick" operation after taking £1.3m ($2.1m) of his clients' money, was jailed for five years yesterday. David Stilwell gave £97,000 over three years to Nigerian fraudsters, including one called Prince Loyal, and received nothing back.

The court heard that Mr Stilwell was refused a licence by the Jersey financial authorities but set himself up in business as a trust and company administrator. The prosecutor said Stilwell was a member of the Institute of Financial Accountants, adding that "professional qualifications are not needed to join that body".

Over five years he took £1,354,784 from various client accounts, using the money to buy properties, clear debts and fund his personal lifestyle, the court was told. He also started taking money from one account to repay what he'd taken from another. He was convicted of fraudulently converting assets to his own use.

Defence counsel Advocate Julie Melia said that Stilwell had suffered two broken marriages, an alcohol problem and a nervous breakdown during the period the money was taken. But in announcing sentence, Deputy-Bailiff Francis Hamon said that the offences were a blatant breach of trust that had not helped the financial reputation of the island. *Philip Jeune, Jersey*

■ TELEVISION REGULATION

Call to put BBC under watchdog

The ITV companies are urging the government to bring the BBC under the control of the Independent Television Commission, the television watchdog.

The companies run most of the commercial terrestrial television network; the BBC is the public service broadcaster financed by a state levy on users of television sets.

The ITV Association, the trade body that represents ITV companies, argues in evidence to the House of Commons culture committee that the BBC's system of self-regulation should be abandoned. Instead, BBC television programmes should be regulated by the ITC and the BBC's radio output should be overseen by the Radio Authority.

The association says that the public service corporation's commercial activities should be "ring-fenced" from operations funded by the levy. *Cathy Newman, London*

■ MACHINE TOOLS

Orders down 21.5 per cent

Orders for new machine tools in the UK fell by 21.5 per cent to the end of November 1997 compared with a year earlier, confirming fears that the large rise in sterling may start to feed through into production later this year.

In the three months to November, sales from the UK machine tool industry increased 1 per cent at constant prices compared with the equivalent period a year earlier, according to the Office for National Statistics. This was mainly due to a 5 per cent year-on-year drop on exports, which was offset by a 4.5 per cent rise in sales to UK-based customers. *Peter Marsh, London*

■ NUCLEAR INDUSTRY

Boost for plutonium plan

A controversial scheme to start a £300m ($490m) plant for processing plutonium into nuclear fuel at British Nuclear Fuels' Sellafield complex in north-west England yesterday moved closer to winning approval from the government's Environment Agency.

The agency published a report by PA Consulting on the economic case for the scheme strongly supporting BNFL's decision to go ahead. It suggests that the agency is moving towards granting BNFL an operating licence for the scheme, the Sellafield mixed oxide (Mox) plant which has already been built and is standing ready for commissioning.

The agency said no decision had yet been taken on a licence for the project which has attracted fierce opposition from enviromental groups. The plant is seen by BNFL as a key addition to the £2.3bn Thorp plant for extracting plutonium from spent nuclear fuel from customers around the world. *Stefan Wagstyl, London*

■ 'MAD COW DISEASE'

Date set for public inquiry

The judicial inquiry into the history and handling of BSE, or "mad cow disease", will hold its first public hearing next Tuesday at Westminster Central Hall, London. Lord Justice Phillips, the chairman, invited people to attend if they could help the inquiry establish the facts about BSE and new variant Creutzfeldt Jakob Disease, the fatal human brain condition linked to it.

He has been asked to report to the government by the end of this year. *Alison Maitland, London*

BSE test, Page 17

Blair demands 'fundamental reforms' in EU

William Hague (left) is accused by Sir Edward Heath of intolerance towards the pro-European wing of the Conservative party

By George Parker, Political Correspondent

Tony Blair, the prime minister, will today set out Britain's goals for its presidency of the European Union. He will argue in a speech in The Netherlands that the EU must become more relevant to its people, including providing a better framework for job creation.

He set out some of his thinking last night in an article for the Reuters news agency, in which he argues that "fundamental reforms" are essential across Europe to tackle unemployment. He says that burdens on business must be reduced, including high social costs, and that members states must embrace "much more adaptable labour markets".

"I am talking about a reformed European model – a third way of greater adaptability – not laissez-faire capitalism, nor old-style corporatism," he says.

He adds that Europe has been remote from the concerns of ordinary people for too long, and that politicians should grasp the opportunity to address issues such as jobs, training and education.

"Economic and Monetary Union is a Europe-wide project of huge political and economic significance," Mr Blair continues. "We support it. We want to see it succeed. In our presidency, we shall work hard for its smoothest possible start."

But he warns: "Britain will want to weigh carefully the economic and political considerations of Emu participation, just as Britain weighed up an important decision in 1975 [a national referendum on membership of the European Community produced a strong majority in favour]. The British people made the right decision then. Their decision didn't make them any less British."

The country would not be in the first wave of the single currency, "but unlike our [Conservative party] predecessors, we see no constitutional barrier to joining. And any decision will be taken on economic grounds rather than political prejudice.

For too long, the debate in Britain over Europe has gone on in a way which is puzzling to most people in Europe and in a way which has not been emulated anywhere else in Europe," Mr Blair continues.

● William Hague, leader of the opposition Conservative party, hopes to double its membership to about 800,000 over the next two years. But his initiative has been overshadowed by renewed criticism from senior members of the party of his decision to oppose UK membership of the European single currency in the lifetime of this parliament and the next.

Michael Heseltine, who was deputy prime minister in John Major's 1990-97 Conservative government, confirmed that he had been in informal conversations about taking part in a cross-party alliance with Labour to promote the benefits of British membership of the European Union.

Meanwhile, Sir Edward Heath, a former Conservative prime minister, accused Mr Hague of being intolerant towards the pro-European wing of the party. In spite of the distractions, Mr Hague claimed the Conservatives were slowly emerging from the pit of the 1997 election defeat, winning municipal by-elections and gaining new members.

A senior Labour official confirmed that Tony Blair, was considering creating a cross-party committee on Europe and that views were being sought from prominent figures among the Conservative and Liberal Democrat parties, the two largest opposition groups.

Editorial Comment, Page 15

TECHNOLOGY

Ancient bones of contention

Organic material from fossils holds lessons from the past about the future of DNA, says **Michael Peel**

Under the bright lights of a function room in London's South Kensington, Professor Geoffrey Eglinton gestured towards a man who had recently helped him with his research: "I know his DNA is decaying," the professor said sadly.

At least the *man* in question had never felt any pain from his chronic condition, which began shortly after his death in a Somerset cave 9,000 years ago.

The professor's anxiety was nevertheless understandable. After all, he was just about to announce the results of a five-year, £1.9m Natural Environment Research Council programme which depended on ancient bones for its raw materials.

The Ancient Biomolecules Initiative examined how biological molecules in archaeological and fossil materials changed over time. The 17 ABI projects showed how organic material from fossils could provide insights into the lifestyles of ancient peoples.

The ABI also established that there were severe limits to the knowledge which scientists could expect to obtain through studying ancient molecules. It confirmed that dinosaurs could never be built using DNA from their bones, as the genetic material would have decayed millions of years before the fossils were dug up.

However, the ABI enjoyed its share of breakthroughs. There were surprises about how the human race used to live, some of which are likely to have an impact on the way we live now.

For example, an examination of the bread-making qualities of prehistoric wheat yielded a test for exposing fraud perpetrated by present-day food producers. The new technique emerged after scientists from the UK's Umist and the University of Sheffield looked back 10,000 years to the beginning of crop cultivation in the "fertile crescent", a region of the Middle East which included parts of modern-day Iraq and Syria.

Some archaeologists thought that prehistoric farming communities grew only primitive wheats which were not good for making bread. Modern loaves are springy because the wheats used to make them contain different forms of some of the genes found in primitive wheats.

However, by analysing the DNA of wheats, the ABI team found that 3,300-year-old wheat from Assiros, Greece, would have had good bread-making properties. In other words, the Greeks of 1300BC may have selectively grown wheats which were most suitable for making bread. "Bread wheat was thought to have been an achievement of modern agriculture but it has always been there," says Professor John Krebs, chief executive of the NERC.

The DNA sampling the wheat team perfected can also be used to test whether modern foods fit manufacturers' descriptions. Some flours and pastas described as being made from durum wheat in fact contain bread wheat, which is cheaper. The DNA test can distinguish the two.

The technique is just one of many recent examples of the use of DNA testing to solve modern-day problems of identification. In recent years, DNA samples have been used to identify the bodies of the Auschwitz doctor Josef Mengele, as well as members of the Russian Romanov family.

Stung: bee in amber from which ABI researchers could not extract DNA

Dr Erika Hagelberg, who co-led the Mengele investigation, conducted an ABI study of DNA from the bones of Polynesians in an attempt to solve the mystery of the identity of the people who first settled Easter Island in the South Pacific at some time during the last millennium.

In 1947, Thor Heyerdahl sailed on his raft Kon-Tiki from the Pacific coast of South America to Polynesia in an attempt to prove that the South Pacific islands had been colonised from the east. Modern anthropologists have tended to disagree with Heyerdahl, arguing that Easter Island was colonised from the west.

Dr Hagelberg's analysis supports that view. She suggests that Polynesians have spread through the eastern Pacific in the past 2,000 years, eventually reaching New Zealand, Hawaii and Easter Island.

Similar DNA analyses of the remains of ancient Europeans challenged widely held theories about migration patterns. Tests on 30 Stone Age skeletons from sites in France and Germany and caves in the UK suggested that modern Europeans might be descended from hunters, rather than farmers who spread through the continent from the Middle East, as many anthropologists believed.

After comparing the DNA of Europeans, an Oxford University team concluded that only a very small number of agricultural pioneers arrived from the Middle East.

The ABI projects ran into problems when they tried to delve into the very distant past. Although Dr Hagelberg successfully extracted DNA from the bones and ivory of a 50,000-year-old Siberian mammoth, attempts to isolate the genetic material from insects preserved in 15m- to 20m-year-old Dominican amber all failed.

DNA is broken down by contact with water and oxygen. It may also be affected by prolonged exposure to background radiation, which varies according to the geology of a burial site.

Prof Eglinton says it is not possible *to obtain DNA from samples* more than 100,000 years old. That means there is no hope of extracting it from the fossils of the last dinosaurs, which died some 65m years ago.

Many of the ABI participants were openly dismissive of reports that DNA had been extracted from dinosaur eggs and bones, as well as 17m-year-old plants. When one project member was asked what he thought about a US scientist who claimed to have obtained DNA from dinosaur bones, he declined to answer before consulting his solicitor.

It seems the past has taught the ABI scientists many lessons about the future of DNA research. As Prof Eglinton says: "The Ancient Biomolecules Initiative has unlocked the *approach but it has also sounded* a number of warning bells about what we can and cannot do."

Charged up about cleaning blinds

Static energy may be cheap and relatively useful, but for many years it has been gathering dust in scientific attics, overtaken by other innovations.

Now Larry Silverberg, professor of electrostatics at North Carolina State University in Raleigh, has taken what many thought was a technological cul-de-sac and used it to revolutionise a dust-catching fixture in modern office buildings: venetian blinds.

Blind Rage, Prof Silverberg's company, is developing a double-paned window in which the blinds are sandwiched in the empty space between the panes. Two rods support slats which are connected via in-wall wires to a dimmer switch.

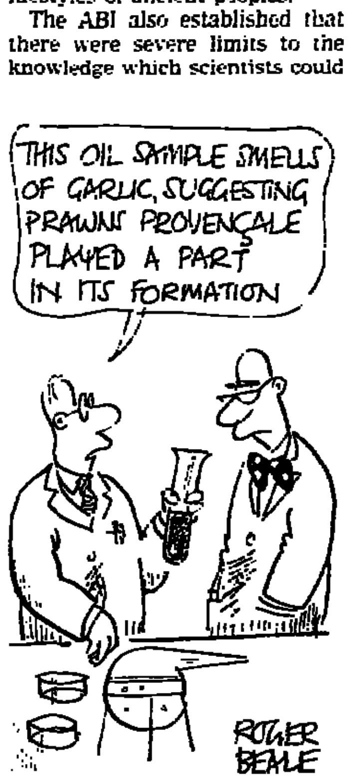
"The slats are aluminium, so they conduct electricity and the glass is electrically grounded," he says. "By adjusting the dimmer switch, you control the amount of *static cling* generated, and thus control how much the slats open and close."

Prof Silverberg's power blinds can be installed virtually anywhere and cost less than a few pence to run for a year. The blinds are more thermally efficient than simple double-paned windows, because the slats inhibit the natural flow of air currents that can lead to heat loss.

In addition, the production cost is lower because there is no complicated pulley/cord set-up as in conventional blinds. "Best of all they require very little cleaning and maintenance compared with traditional blinds which tend to attract dust," he says. "I think for most of us, that would be reason enough to get rid of the old blinds."

Prof Silverberg's blinds will become commercially available in two to six months. He hopes they will find a niche in commercial and office buildings.

Gabriele Marcotti



Creatures in the oil well

Animals turn out to have a role in the chemistry of oil formation

If you ever prepare prawn, crab or lobster, think twice as you stand over the bin with a handful of shells – you could be about to ditch part of the world's precious energy reserves.

A Bristol University study has shown that materials in the shells of arthropods – the group of animals including crustaceans, arachnids and insects – change over time into substances similar to those found in oil source rocks.

It had been widely assumed that oil was formed by the decay of bacteria, algae and higher plants. Oil is largely made up of carbon and hydrogen-containing compounds known as hydrocarbons, which have similar structures to materials found in plants. Animals were not thought to have contributed greatly to the build-up of oil, as they contain far less hydrocarbon-like material than plants.

The Bristol work was done as part of a five-year Natural Environment Research Council programme to study how biological molecules in archaeological and fossil materials change over time.

The Bristol team compared present-day shrimps and crickets with a range of fossils, some of which dated back to the Silurian period more than 400m years ago. The group looked at changes over time in the concentration of chitin, a carbohydrate found in arthropod cuticles.

Although the team found chitin in fossils of up to 25m years old, the older samples showed no traces of the carbohydrate. The ancient fossils did, however, contain hydrocarbon-like material. "It shows that animal material may contribute to oil," says Professor Derek Briggs of the university's Biogeochemistry Research Centre.

Plankton account for most of the 1bn tonnes of chitin produced in the world each year. Prof Briggs says the findings could potentially influence approaches to oil exploration in oceans which contain large numbers of the planktonic arthropod krill.

Prof Briggs says: "My suspicion is that in the Southern Ocean, where you have got very low temperatures and a high population of krill, you might get a high proportion of this arthropod-derived [hydrocarbon-like] material." He says the group needs to do more research into chitin if it hopes to understand the role of animals in the formation of oil. The researchers are unsure of the chemistry of the transformation of chitin into hydrocarbon-like material.

This uncertainty means there is no obvious industrial application of the group's findings. Companies will not be breeding giant cockroaches for their oil in the foreseeable future, according to Prof Briggs.

But the Bristol researchers have shown that the chemistry of oil formation is more complex than scientists imagined. "We have almost shown that you can get hydrocarbon materials from non-hydrocarbons," says Richard Evershed, of the university's Organic Geochemistry Unit.

That finding raises the possibility that the oil which forms from decayed plants is not derived from hydrocarbon-like substances.

Could scientists use this information to devise a way of extracting oil from plants? Dr Evershed is cautious but admits: "Maybe there are ways you could exploit it industrially."

MP

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and

IN THE MATTER OF *THE COMPANIES ACT 1985*

NOTICE IS HEREBY GIVEN that a Petition was presented to Her Majesty's High Court of Justice, Chancery Division on 8th January 1998 for the confirmation of the reduction of share capital of the above named Company from £601,500,000 to £558,971,340.50.

AND NOTICE is further given that the said Petition is directed to be heard before the Registrar of the Companies Court at the Royal Courts of Justice, Strand, London WC2A 2LL *on Wednesday the 28th day of January 1998.*

Any Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of share capital should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any person requiring the same by the undermentioned Solicitors on payment of the Regulated Charge for the same.

Dated the 20th day of January 1998

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Ref: KO
Solicitors to the Company

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BUSINESS AND THE LAW

Court backs migrant workers

EUROPEAN COURT

A collective agreement that does not take into account periods of comparable employment completed in the public service of another member state for the purposes of assessing seniority and promotion, discriminates against non-nationals, the European Court of Justice ruled last week.

The European prohibition on discrimination had the consequence that such a collective clause was immediately null and void, it said.

Specialist doctors employed for eight years at a specific salary band by the city of Hamburg were entitled to promotion to a higher salary band under the provisions of the Federal Collective Wage Agreement.

A Greek doctor employed by Hamburg since August 1 1996, had previously completed nearly six years of additional service in the Greek public service as a specialist doctor.

However, the collective agreement did not permit this period of service to be taken into account for the purposes of calculating her seniority and thus her promotion to a higher salary band.

Taking the view that this indirectly discriminated against her as a migrant worker, she commenced proceedings against her employers.

The Labour Court decided to refer the European law issues arising out of these proceedings to the European Court. The Labour Court wanted to know whether the clause was contrary to the free movement of workers provisions of the Treaty of Rome and, if so, what the consequences of this were.

The Court said the clause in question was clearly discriminatory. The prohibition of discrimination against migrant workers in European law guarantees equal treatment of workers who are nationals of other member states in relation to any clause of a collective or individual agreement concerning, in particular, pay.

The Court said the period of service completed by the applicant in Greece was comparable to her work in Hamburg.

The medical profession was regulated at European Union level. There could be no exception for the activity of a specialist doctor on the grounds that such activity involved employment in the public service.

Since the conditions for promotion on grounds of seniority worked manifestly to the detriment of migrant workers by failing to take into account comparable periods of service completed in the public service of another member state, they contravened the principle of non-discrimination.

The fact that periods of service completed in areas of Germany which were not covered by the federal wage agreement were equally excluded for the purposes of computation of periods of service, did not remedy the breach of European law.

Nor did the fact that the public service is governed by different organisational and operational rules in other member states since the activity of a specialist doctor does not constitute employment in the public service.

Finally, there was no question of justification on the grounds of rewarding employee loyalty. The German wage agreement covered the majority of German public institutions and undertakings performing public interest tasks.

That afforded great mobility to employees covered by the collective agreement and concerned a multiplicity of employees rather than acting as a means of rewarding employee loyalty to an individual employer.

Thus the offending clause was null and void. Members of the disadvantaged group were entitled to be treated in the same way as other workers. There was no need to wait for collective renegotiation of the clause or some other procedure. The national court was bound to apply the same rules and treatment to the disadvantaged migrant worker immediately.

C-15/96 Kalliope Schoning-Kougebetopoulou v Freie und Hansestadt Hamburg, ECJ FC, January 15 1998

BRICK COURT CHAMBERS, BRUSSELS

Caught out on film

Mark Clough on why the WTO rejected US charges against Japan

The preliminary World Trade Organisation Panel report on Japanese photographic film and paper provides the first significant test under the WTO dispute settlement procedure for US multilateral trade policy. This is the first WTO case brought by the US in which it has not succeeded.

The WTO was established following completion of the Uruguay Round of the General Agreement on Tariffs and Trade at the beginning of 1995. Since then there have been approximately 80 panels and seven appellate reports decided by the WTO Appellate Body.

To date, the US has invoked formal procedures under the WTO dispute settlement mechanism in 34 cases – more than any other country. Of those 34, the US won all seven cases that completed the WTO Dispute Settlement Panel process, and obtained highly favourable settlements in the seven other cases finally resolved. In particular, the US has succeeded in its two cases against Japan.

The US record with the WTO Dispute Settlement Body may be thought just reward for its support for greater legalisation of international trade disputes. However, the negative US reactions to the unpublished preliminary photo-film report warrant further examination of the report and whether these reactions are justified.

On one level, the case is no more than a private competition law dispute between Kodak of the US and Fuji of Japan. On another, it raises questions about continuing US support for WTO dispute settlement.

In 1996, at the instigation of Kodak, the US determined under Section 301 of the 1974 Trade Act to subject Japan's alleged liberalisation counter-measures affecting imports of film to WTO dispute settlement. The European Union and Mexico appeared as third parties in the dispute, with the EU making submissions and statements in support of the US.

The US submissions to the panel described the measures alleged by the US to have been put in place by Japan over the past 30 years to offset the effects of tariff, import, and foreign investment liberalisation and to limit the sale of imported consumer photographic film and paper in the Japanese market.

The US alleged that the Japanese laws, regulations and requirements affecting the distribution, offering for sale and internal sale of consumer photographic film and paper treated imports less favourably, in violation of Gatt Articles III and X. The US also alleged that these measures nullified or impaired the benefits of tariff concessions accruing to the US in three successive rounds of tariff negotiations dating back to 1967.

Bearing in mind the US's WTO success rate, the response of the US and Kodak to the panel's preliminary report has been surprisingly hostile. In response to reports that the report was against the US on all counts, Charlene Barshefsky, the US trade representative, said: "The US is extremely disappointed by this report. Its ruling sidesteps the real issues in this case and instead focuses on narrow technical issues... the US will continue to press vigorously for meaningful access to this market. We will evaluate the broad range of options available to us – on a bilateral, regional or multilateral basis, as well as action under our trade laws, including Section 301 of the Trade Act."

The panel's report has not been published but extracts have become available. It is clear from these extracts that, contrary to the impression given by the US, it succeeded on most of its arguments on the technical issues.

In particular, the panel appears to have adopted a very broad definition of the term "measures" in the context of the nullification and impairment remedy. It found a variety of Japanese government actions which provided neither an incentive nor an obligation for private company compliance, including administrative guidance, guidelines and policy pronouncements, to be "measures".

Notwithstanding the fact that eight of the 21 alleged measures were not referred to in the terms of reference of the panel requested by the US, only five were rejected by the panel on procedural grounds. The other 16 alleged measures, including three not referred to in the terms of reference but which were deemed sufficiently relevant, were carefully examined by the panel. Thus, the panel did not reject the substance of the US case on technical or procedural grounds.

The panel found against the US on the fundamental issues of fact and evidence. In respect of all 16 measures, the panel found no effect from the measures on competition between imports and domestic products. There was no evidence of government action causing the nullification and impairment of tariff concessions.

In addition, the panel also examined the five measures rejected for procedural reasons but found that they also had no effect on competition.

Finally, virtually all of the 21 government actions alleged by the US were also rejected on the additional grounds that they were either not measures or that the US had no reasonable expectations that they should not interfere with tariff benefits in place before the relevant tariff negotiations.

The only exception to this point was for a single measure taken near the end of the Kennedy round negotiations, which could only have affected concessions on black and white film. Nor was there any evidence to support the crucial allegation made by the US that the different measures linked together impaired tariff concessions.

There appears to be little scope for criticism by the US of the report, which should be finalised by February 5, since the panel decided the main legal issues in its favour. The report can have little or no implications for other industrial sectors because it was decided on facts specific to film.

The temptation for the US to appeal in order to appease domestic political pressures, will have to be balanced against the slim prospects for a successful appeal and the past US success rate as a WTO complainant. Moreover, as the US has pointed out, Japan has voluntarily changed the laws and practices criticised by the US.

In terms of the broad US complaint about an exclusionary market structure for film distribution in Japan, the panel found no relationship between government measures and the market structure. In the absence of such a relationship, Gatt 1994 does not apply.

Where issues of market access fall within the scope of competition law and involve only private practices, such as in the present case, the US might do better to reconsider its opposition to an international approach to competition law than to lose its first appeal before the WTO Appellate Body.

The US cannot credibly criticise panel decisions that refrain from findings on restrictive business practices when such practices are not within its jurisdiction.

The author is a partner of Ashurst Morris Crisp, the City law firm.

LEGAL BRIEFS

Freshfields was leading adviser on takeovers

Freshfields, the UK international law firm, has emerged as the leading legal adviser in the 1997 Corporate Money league tables covering mergers and acquisitions and equity fundraising activity involving companies in the UK.

The firm benefited from its involvement in several deals announced on "merger Monday", October 13, including the merger between BAT's Financial Services Group with Zurich, the Reed Elsevier/Wolters Kluwer merger and the Lafarge bid for Redland.

Freshfields was placed first for its involvement in 72 deals worth a combined £45.6bn. Slaughter and May was second with 84 deals worth £37.4bn, Linklaters, third, with 63 deals worth £26.2bn and Allen & Overy, fourth, with 75 deals worth £21.3bn.

Several US law firms featured in the top 20 for the first time. Cravath Swaine & Moore was placed tenth with six deals worth a combined £11.5bn, Sullivan & Cromwell, eleventh, with six deals worth £11.4bn, Davis Polk & Wardwell, fourteenth, with eight deals worth £10.5bn.

Italian opening

Freshfields has opened a new office in Rome with one partner and four other lawyers. The City-based international law firm now has 50 lawyers in Italy.

Partners named

Eversheds has appointed former Rowe & Maw partner Michael Wainwright and former Wilde Sapte partner Nicholas Walmsley as partners in its financial services group.

INTERNATIONAL PEOPLE

Reis leads Swisscom

Tony Reis, 56, a former senior executive at International Business Machines, has been appointed chief executive of Swisscom, the Swiss telecommunications company due to be partly privatised later this year. He replaces Felix Rosenberg, 56, a former Swiss politician who has run the state-owned company since 1989.

Rosenberg's future had been in doubt since last September when the Swiss government brought in Markus Rauh, 59, a corporate turnaround specialist as chairman of Swisscom, the new name for the Swiss PTT's telecommunications business. Last month Rosenberg announced that he was retiring but would sit on the supervisory board of Swisscom representing the Swiss government, which will still own over 50 per cent of the company after its stockmarket flotation.

Reis's appointment is slightly surprising given his age and the fact that he only joined Swisscom a year ago as chief operating officer and head of marketing and products. However, Swisscom was under pressure to make a swift decision since it is starting to face several new competitors following the deregulation of the Swiss telecoms market at the start of 1998 as well as prepare for the forthcoming privatisation.

Reis joined IBM in 1964 in Zurich and was named general manager of IBM Schweiz in 1991. Two years later, he transferred to Paris to head IBM's operations in Europe, the Middle East and Africa. Swisscom has also confirmed David Schnell, 50, as head of finance. Schnell, an accountant, has worked as a chief financial officer in the European subsidiaries of Digital Equipment Corporation and ITT. He was chief operating officer of Elco Looser Holding in Zurich until joining Swisscom last September.

William Hall, Zurich

Tuderek chooses to stay in business

Polish anti-corruption laws barring parliamentary deputies from running businesses which are wholly or part-owned by the state have forced Grzegorz Tuderek, the chief executive of Budimex, one of the country's largest listed construction companies, to resign his seat won in last autumn's elections.

Tuderek, who stood for the former communist Left Democratic Alliance (SLD), has run Budimex for the last 10 years. He took the company out of the state sector and on to the Warsaw Stock Exchange in 1995. However a state-owned entity still holds less than 1 per cent of the company's stock. This, on a strict interpretation of the law, meant that his position in parliament became untenable.

"I had no time to fight the ruling as the law says that any deputy who refuses to relinquish his post in business automatically loses his seat after three months," he says.

Further, a strict reading of the law means that executives of listed companies in parliament are always at risk of falling foul of the law as state-owned entities, such as banks, are free at any time to buy stock in their companies without even informing management that they have done so. "That means that I would risk losing my seat at any time," he says.

Tuderek has chosen to stay with Budimex which he wants to develop into a company able to hold its own against foreign competition once Poland joins the European Union. A forthcoming share issue will finance the recent takeover of Dromex, a specialist road builder, in an acquisition which should allow Budimex to take advantage of Poland's toll motorway building programme.

Parliamentary practice in Poland allows deputies to chose whether they keep their jobs and discharge their political duties on a part-time basis or become full-time deputies. The idea is that professions other than politicians should be represented.

Christopher Bobinski, Warsaw

Werner set to join Metallgesellschaft

Helmut Werner, former head of Germany's Mercedes-Benz motor company, is set to become the next chairman of the non-executive supervisory board of Metallgesellschaft, now recovered from its near-collapse four years ago caused by heavy losses on US oil futures trading.

The board's personnel committee recommended the appointment, along with the confirmation in office for a further five years of Kajo Neukirchen, 55, who became chief executive of the industrial and trading group in its darkest days in December 1993.

Approval is expected by the full supervisory board at its next meeting on February 6. This will mark a further stage in the rehabilitation of Metallgesellschaft, which recently proposed to pay a dividend for the first time in five years. Werner, 61, who left Mercedes a year ago after losing a power struggle with Jürgen Schrempp, head of its parent company, Daimler-Benz, will succeed Ronaldo Schmitz as supervisory board chairman.

Schmitz is a director of Deutsche Bank, which led the DM3.4bn ($1.86bn) rescue operation to save Metallgesellschaft. The US debacle led to a bitter clash between him and Heinz Schimmelbusch, who was ousted from the company after the losses emerged.

By choosing a leading industrial figure as its chairman, the company's supervisory board has departed from the practice by which the post was held by a director of either Deutsche or Dresdner Bank. Each bank owns just over 10 per cent of Metallgesellschaft's shares, with Daimler holding about 2 per cent.

Andrew Fisher, Frankfurt

Moving places

■ Lord Renwick has been appointed chairman of ROBERT FLEMING, Flemings subsidiary in the US. Lord Renwick is a director of Robert Fleming Holdings and is currently chairman of Save & Prosper, Flemings retail asset management arm in the UK. Colette Bowe, the former chief executive of the Personal Investment Authority will succeed him as chairman of Save & Prosper in April.

■ Marc Winer, former chairman of McDonald's Russia and a vice-president of McDonald's Canada, has joined the board of MIDDLESEX HOLDINGS as a non-executive director. The company operates mainly in the CIS and particularly in Russia. Winer is vice-chairman designate of Uralmash Zavody, a Russian heavy industry company, and a member of the American Chamber of Commerce in Russia.

■ MILLICOM INTERNATIONAL has named Marc Beuls president and chief executive officer and Magnus Mandersson chief operating officer. Beuls succeeds Jay Metcalf who is resigning as president and chief executive to develop a new career. Beuls has been with Millicom since 1992, serving as senior vice-president for finance. Mandersson has been president and chief executive of Millicom's Société Européenne de Communication SA unit.

■ German blast furnace linings maker DIDIER WERKE has appointed Walther von Wietzlow management board chairman. He replaces Dietrich von Knoop, who retired at the end of 1997. Wietzlow has been in charge of sales on the Didier board since 1995.

■ ZILA, a global provider of healthcare products, has appointed Bradley Anderson vice-president and chief financial officer. Anderson replaces executive vice-president and chief financial officer Clarence Baudhuin, who will remain on the company's board and serve as a special adviser to president and chief executive officer Joseph Hines. Anderson joined the company in November 1996 as vice-president and treasurer.

■ HANG SENG BANK has appointed Lee Quo-wei honorary chairman of the bank. At the same time Lee, 79, will retire as non-executive chairman and non-executive director of Hang Seng Bank. He has served as the bank's executive chairman for 13 years and as the non-executive chairman since March 1, 1996. The former honorary chairman, Ho Sin-hang, died last month at the age of 97. Hang Seng Bank, a principle member of the HSBC Group, is the second-largest locally incorporated bank in Hong Kong.

■ INTEGRA LIFESCIENCES has appointed Stuart Essig, a former managing director at Goldman Sachs, president and chief executive.

■ SOCIETE GENERALE ASSET MANAGEMENT has announced two more senior appointments at its recently established UK subsidiary. John Ions, currently head of UK sales and marketing at Aberdeen Prolific, has been appointed head of retail. Mikkel Bates is also to join from Prolific and will be responsible for unit trust services.

■ Phil Allen, global leader of market planning for DOW CHEMICAL, based at their European HQ in Horgen, Switzerland, has left the company. After a 25-year career in industrial marketing and sales, Allen has established his own global marketing excellence practice, MARKETABILITY.

■ Bryan Ward has joined SANTANDER GLOBAL ADVISORS as head Pacific Basin equity research. Ward, who has eight years of investment experience, joins Santander from Wellington Management LLP where he managed Japanese equity portfolios and directed a team of analysts responsible for the fundamental analysis of companies in Japan/North Asia.

■ Management consulting company PUTNAM, HAYES & BARTLETT has appointed Nick White, 38, formerly vice-president of Arthur D. Little, director with responsibility for growing its consulting activities in the European gas and electricity sector.

■ DRESDNER KLEINWORT BENSON has appointed B.J. Megargel head of corporate finance, North America. Megargel will lead Dresdner Kleinwort Benson's New York-based team of specialists in mergers and acquisitions and advisory services as they assist global and North American clients in meeting strategic cross-border objectives. Formerly Megargel was head of investment banking for BZW in the US.

■ Rod Fehrsen, chief executive of PLATE GLASS & SHATTERPRUFE INDUSTRIES has resigned.

■ Edvj Massazza-Gal has been appointed managing director of the VISA office in Paris in charge of developing Visa activities in France. She is a company senior vice-president and was formerly managing director in charge of Mediterranean Europe.

■ Société Générale has appointed Michel Douzou, 51, as regional representative for the south-east Mediterranean area. He has been with the company since 1963 and replaces Andre Dion who is retiring.

■ Piyush Sodha has resigned from his posts as president, chief executive and board member of LCC INTERNATIONAL. Richard Hozik has been appointed acting president and chief executive. Hozik is LCC's senior vice-president and chief financial officer. The company has begun an external search for a new president and chief executive.

■ BELL ATLANTIC'S Bell Atlantic Mobile unit named Jack Plating executive vice-president and chief operating officer. Plating was president of Bell Atlantic's Mobile New England and Upstate New York region for two years. He joined the unit in 1991. Plating will have responsibility for operations of the unit's six regional markets that stretch from New England to northern Georgia. He also will be responsible for the operations of Bell Atlantic Paging and Bell Atlantic Mobile's marketing organisations.

■ Daniel Farrar has been appointed president and chief executive of GE CAPITAL FLEET SERVICES – EUROPE, a business unit of GE Capital Fleet Services. Farrar was senior vice-president of North American operations for GE Capital Fleet Services.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

ARTS

Old Master of intrigue

William Packer discusses the work of Flemish artist, Jan van Eyck

Pace the common superstition, size isn't everything, and with almost every special display it mounts, the National Gallery confirms its wisdom in not putting on any really large temporary exhibitions. The latest, in the tiny Room 1 above the old main entrance, is given to Jan van Eyck, with the gallery's three examples augmented by major loans from Antwerp, Philadelphia, Turin and Washington. And, small as it is, with but six accepted, one or two still disputed and a few related works, it is a show of real importance.

For Van Eyck stands pre-eminent among the Flemish painters of the 15th century, when the Flemish school was one of the glories of pan-European renaissance. That he was the first painter to use oil as his medium is now disproved, but that he brought the technique to the highest pitch of refinement is beyond question. He was honoured in his own day as far away as Florence, and the tantalising possibility remains of his having actually travelled into Italy. Yet his career was short. He was first heard of at the Hague in 1422: by 1425 he was at Bruges working at the Court of Philip the Good, Duke of Burgundy: and by 1441 he was dead. A bare two dozen or so of his works are known, and what we have now in this little room is as many as is ever likely to be brought together.

And here, perhaps, is the man himself, in the National Gallery's portrait of middle-aged man (1433) with a large, loose netherlandish turban about his head. He half turns to gaze at us in the classic self-portrait way, though from the pose he might have been left-handed. Was he? Is it him? I should like to think so.

For us in London, since the National Gallery's double-portrait of the Italian merchant, Giovanni Arnolfini and his wife (1434) is so familiar, the centre-piece must be the Washington "Annunciation" (1434-6), a wing of a lost altarpiece. It makes an intriguing pair with the "Arnolfini", the one a sacred, the other a secular essay in what was then a radical realism, yet both fraught with symbolic meaning still open to definitive interpretation.

The church in which the Virgin receives the Holy Spirit seems real enough, but is in fact a simple, invented space, its three gothic tiers and three far windows signifying the Trinity, with lilies for purity in the foreground and dove descending on a beam of light. So, too, is the room in which the Arnolfini couple stands: this is a simple box interior, but it is full of now-ambiguous symbols of constancy, passion and birth – the faithful dog, the lighted candle, the tiny carving of St Margaret. Is it the contract that is being celebrated, or the marriage itself? Is she pregnant? Who are the people in the mirror? We simply don't know.

The poses echo each other intriguingly: on the left, angel and gentleman alike with one arm raised in a kind of benediction and the other reaching out; on the right the dutiful wives, each in the same high-waisted, full stomached dress, with the long, falling folds that clearly fascinated Van Eyck. The fall of the Virgin's cloak across the table is a miracle of realist description.

The little "St Barbara" (1437) from Antwerp is another puzzle, another woman in a sea of folded drapery. She, the tower and the world behind her, are drawn in sepia onto a white gesso ground, with the sky lightly washed in with blue and yellow. Is it finished? Van Eyck himself put the frame on it, but that in itself is not conclusive, and the work seems just too relaxed and open-ended for a presentation drawing. For whatever reason it was left off, I believe it is indeed unfinished, and all the more valuable for the insight it affords into the artist's method.

The two little, near-identical paintings of St Francis, praying with another monk among the rocks, present another puzzle: which is the original and which the copy, if copy it is? The larger, from Turin, is on board, the smaller, from Philadelphia, is in oil on parchment, yet with a backing board that matches panels on which Van Eyck is known to have worked. Both seem so fresh and sure in the working, that for either to be a copy seems to me unlikely. A curious footnote is that a close copy of the rock and distant lake and city beyond St Francis appear in the "Adoration of the Kings" (c.1470) by Botticelli and Filippino Lippi, which is also in the National Gallery's collection.

But then such puzzles only bring us closer to the work itself. And it is, in the end, not what these paintings represent, fascinating though it is, that truly matters, but the vision of reality they present, that speaks to us still as fresh as ever across nearly six centuries. This is the greatest puzzle of all, that paint laid onto a board should work so long and powerfully upon the imagination, in proposing a reality that never was, yet always is.

Recognising Van Eyck: The National Gallery, Trafalgar Square WC2, until March 15.

As fresh as ever across the centuries: detail from 'The Annunciation' by Van Eyck

Martinu weekend/**Andrew Clark**

A composer of infinite variety

Fertility and fluency were never Martinu's problem. Profundity was. Time and again during the BBC's weekend retrospective at the Barbican in London, we were left marvelling at Martinu's prolific dexterity – rhythmic, textural, melodic – without being convinced that the music really mattered. Only when disciplined by extreme compactness of form or goaded into abandoning emotional neutrality, did Martinu succeed in making artistic statements of real significance.

When they came, those peaks were worth waiting for: *The Greek Passion* for its marriage of the simple and the epic, the *Fantaisies Symphoniques* for originality of form and expression, the Nonet for classical sleight-of-hand, the Double Concerto for bringing all Martinu's gifts into pristine focus. The BBC Symphony Orchestra's performance of the latter on Sunday – rhythmically exact, tonally sumptuous and powerfully "driven" by the conductor Jiří Bělohlávek – gave the weekend an unexpectedly satisfying climax.

A tally of four masterpieces, supported by a handful of near-masterpieces, is nevertheless a meagre pay-off for a man variously described as a "great composer" and "the Dvořák of our age". The truth is that Martinu was a great second-rate composer, and the value of the weekend was to clarify what mattered and what did not. Much of the fascination lies with the man himself – his clock-tower upbringing, his bohemian apprenticeships, the life of exile and nostalgia, all of which were explored in well-attended side-events. Martinu is ideal material for such treatment, not just because his life is well documented, but because of the sheer volume and variety of the music.

All too often, however, Martinu's compulsive activity became a substitute for inspiration. Even the exuberant, immaculately rehearsed BBC Philharmonic, conducted on Saturday evening by Vassily Sinaisky, could not mask the formulaic imprints of the Third Piano Concerto and Fifth Symphony. Twice in the Andante of the concerto (played by Boris Berezovsky with an appropriately splashy virtuosity) and again in the first and second movements of the symphony, Martinu falls back on an all-too-familiar trick – repeating the same rhythmic/melodic cell over and over on a rising harmonic scale. I suspect the BBC Philharmonic's colourful strings made the music sound better than it really is. Where the orchestra *did* meet its match was in the *Frescoes of Piero della Francesca*, the vivid colours and cross-rhythms of which were thrillingly projected by Sinaisky.

The same qualities were evident in a Sunday afternoon recital by the rejuvenated Nash Ensemble. The only way to make sense of the Trio for flute, cello and piano (1944), a work of Gallic suppleness in which there are hardly two beats the same, is to make it sound simple – which Emily Beynon, Richard Lester and Ian Brown duly did; and Michael Collins had great fun twiddling and twirling his clarinet through the syncopated finale of the Sonatina (1956).

There were disappointments – notably the First Cello Concerto, in which the soloist, Raphael Wallfisch, could not mask Martinu's bitty construction. But they were outnumbered by the discoveries. For me, these were the *Field Mass* (1939), a fateful prayer from the trenches, nobly sung by Roman Janal and the BBC Symphony Chorus; the anguished, angular Fifth String Quartet (1938), which the Stamic Quartet included in their Saturday morning recital; and the precocious song-cycle *Nipponari* (1912), a collection of oriental flower-petals requiring stronger projection and tonal variety than Marta Beňačková provided on Sunday evening.

The weekend's centrepiece was *The Greek Passion*, conducted with extraordinary authority by Bělohlávek. What came across was not just the opera's epic breadth and prophetic symbolism (it superimposes the biblical Passion story on a community's response to an influx of refugees): more important, it demonstrated that Martinu was capable of rising above his eclectic sources and creating a work with an integrity of its own.

The advantage of Saturday's concert performance was that it gave the opera's musical events an ideal continuity: the atmospheric use of accordion, the dignified string lines and celebratory episodes took their place as part of an allegorical whole, far removed from the splintered, episodic quality of most staged performances. The downside was that the piece sounded uncannily like an Elgarian oratorio. If that implies music of spiritual import and emotional sincerity, so be it. David Rendall sang the Christ-like Manolios with inner dignity. Timothy Robinson was the radiant Yannakos, Clive Bayley a commanding Grigoris. Susan Chilcott's Katerina, more Virgin Mary than Mary Magdalene, was sweetly sung. The BBC Symphony Orchestra and Chorus were in superlative form.

It is impossible to imagine any other promoter putting on a programme of such scale and daring. Bravo BBC, and bravo Bělohlávek, who emerges from the weekend with greatly enhanced stature. Next January's composer will be Messiaen, followed by Weill in 2000.

Recital of grandeur, passion and infectious fun

Nobody else would have even dared try. After one encore from *Camelot* and a rollicking follow-up by Flanders and Swann, Bryn Terfel broke all the rules and had his Wigmore Hall audience join him in community singing with "Mud, glorious mud!". Even the illustrious stars of the Wigmore's past must have been humming along from on high.

It was that kind of evening, but earlier it had also been a serious one. Terfel has the almost unique gift at the moment of managing to give a celebrity recital and still succeed in focusing attention on the music – not just himself. If they care to think back beyond the encores, Friday's audience will have come away with new ideas on some German Lieder and their eyes and ears opened to marvellous performances of English and Welsh repertoire that probably meant little to them before.

Fitting the ebullient Terfel into a hall the size of the Wigmore is a bit like a scene out of *Alice in Wonderland*. Lewis Carroll could have made a surreal tale out of how his larger-than-life voice and personality seemed to fill the hall until he was bursting out of the windows and chimney. It is quite a challenge for an accompanist, but Malcolm Martineau coped splendidly, giving this voluminous bass-baritone ample support without ever forcing his tone.

So much about Terfel as a recitalist is inspiring that we might as well get the one serious criticism out of the way. As well as his thunderous full voice, Terfel has a tender, intimate tone (not quite a croon, though it does lose its focus at times) for quieter moments. The problem arises when he keeps alternating from one extreme to the other. Brahms's *Vier ernste Gesänge*, in particular, lacked the basis of a firm, well-bound vocal line at a moderate volume which should be their foundation.

Still, there was much to enjoy. A group of Schubert songs to words by Shakespeare was full of vigour, with no curbing of his spirit to sound dainty. Of the three Schumann songs, "Mein schöner Stern" came across as a neglected masterpiece in Terfel's powerful realisation. The Brahms, too, sounded mighty when the voice thundered out with Old Testament implacability.

For all that, there is one foreign language in which Terfel is supreme – namely English. I defy any other singer today to make half the impact with Finzi's Shakespearian song-cycle *Let us garlands bring*, simply because nobody else makes English words live with that kind of grandeur and passion.

No doubt Terfel is also eloquent in his native Welsh, though there cannot have been many in the audience who would know. In his hands Meirion Williams's *Adelwych* cycle deserved its place in the programme – simple, but heartfelt music that has some of the innocent attractiveness of Grieg.

When so many singers give song recitals because they feel they ought to, Terfel is a shining example of the best kind of recitalist who is out there to enjoy himself. His enthusiasm on Friday was infectious.

Richard Fairman

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INTERNATIONAL ARTS GUIDE

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Tel: 31-20-5732911
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Malevich: Works on Paper from the Khardzhiev Collection Exhibited for the First Time. 79 drawings in pencil, chalk, gouache, ink and watercolours, spanning almost the whole of the Russian avant-garde artist's career; to Jan 25

■ BERLIN

DANCE
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Swan Lake: new staging by Patrice Bart, with designs by Luisa Spinatelli; Jan 23

■ CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Christoph Eschenbach in works by Mendelssohn, Mozart, R. Strauss and Corigliano. With soprano Renée Fleming; Jan 20
● Chicago Symphony Orchestra: world premiere of Sir Harrison Birtwistle's Exody, conducted by Daniel Barenboim. The programme is completed by Beethoven's Violin Concerto in D Major, with soloist Itzhak Perlman; Jan 22, 23, 24

■ GLASGOW

EXHIBITIONS
Burrell Collection
Tel: 44-141-649 7151
Sir John Lavery (1856-1941): The Irish Glasgow Boy. Highlights include "The Tennis Party" (1885), "State Visit of Queen Victoria to the Glasgow International Exhibition" (1888), and major portraits in which the influence of Whistler is clearly visible; to Jan 25

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Shell LSO 21st Anniversary Concert. Conducted by Elgar Howarth in works by Mendelssohn, Jacobs, Cashian and Britten; Jan 21

Queen Elizabeth Hall
Tel: 44-171-9288800
London Sinfonietta: 30th Birthday Benefit Gala. Including two world premieres, and John Tavener's The Whale. Markus Stenz conducts; Jan 24

OPERA
Barbican Hall
Tel: 44-171-638 8891
Nixon in China: the UK premiere of Adams' opera is the opening concert of the "Inventing America" festival. Kent Nagano conducts the London Symphony Orchestra; Jan 25

Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Le nozze di Figaro, by Mozart. Conducted by Charles Mackerras, with designs by Peter Pabst; Jan 21, 22, 23, 24, 26

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Franz Welser-Möst in works by Mozart and Bruckner; Jan 22, 23, 25

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Salome: by R. Strauss. Revival of Sir Peter Hall's celebrated production. Conducted by Richard Hickox, with Hildegard Behrens in the title role; *Jan 21, 24*

■ MADRID

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-1-435 4833
Joaquim Mir, 1873-1940: A Life's Journey. Retrospective of around 140 works by the landscape painter; to Jan 25

■ MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
Il Cappello di Paglia di Firenze: by Rota. Conducted by Bruno Campanella in a staging by Pier Luigi Pizzi; Jan 20, 23, 24

■ NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
● Israel Philharmonic: conducted by Kurt Masur in Beethoven's Symphony No. 9; Jan 21
● New York Philharmonic: conducted by Leonard Slatkin in works by Mozart, Bernstein and Corigliano. With soprano Kathleen Battle; Jan 20
● New York Philharmonic: world premiere of Zorn's Orchestra Variations, conducted by Leonard Slatkin. Programme also includes works by Schuman, Schwantner and Copland. With percussionist Christopher Lamb; Jan 22

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● John La Farge: more than 30 paintings and stained glass windows by the 19th century American artist; to Jan 25
● Gianni Versace: this tribute to the late Italian designer explores the influences upon his work of abstract artists including Warhol, and of historical styles ranging from Greek and Roman classicism to 18th century court styles, and the Vienna Secession. The show also explores his use of new materials such as plastic and leather, and includes designs for the theatre; to Mar 22
● Jackson Pollock (1912-1956): Early Sketchbooks and Drawings. Display of 48 rarely seen pages from Pollock's sketchbooks, and 24 drawings; to Feb 8

Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
On the Edge: Contemporary Art from the Werner and Elaine Dannheisser Collection. More than 80 works by artists including Tony Cragg and Cindy Sherman; to Jan 20

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Capriccio: by R. Strauss. New production by John Cox, with sets by Mauro Pagano; Jan 21, 26
● La Cenerentola: by Rossini. New production conducted by James Levine in a staging by Cesare Lievi; Jan 20, 24

■ PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Gilbert Varga in works by Strauss, Kancheli and Dvorák. With cellist Mstislav Rostropovich; Jan 21, 22

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Russian State Symphony Orchestra: conducted by Evgueny Svetlanov in works by Sibelius and Stravinsky. With violin soloist Dimitri Makhtin; Jan 20

■ ROME

EXHIBITIONS
Musei Capitolini
Henri Matisse: more than 200 works are included in this major exhibition, which aims to demonstrate the profound influence of Oriental art upon the great modernist; ends tomorrow

OPERA
Teatro dell' Opera
Tel: 39-6-481601
www.themix.it
Le Nozze di Figaro: by Mozart. Production for the Teatro Comunale in Florence by Jonathan Miller. Conducted by Hans Graf; Jan 22, 24, 25

■ TORONTO

OPERA
Canadian Opera Company, Hummingbird Centre
Tel: 1-416-363 6671
Hansel and Gretel: by Humperdinck. New production, previously seen in the US, designed by Maurice Sendak and directed by Frank Corsaro. The conductor is Randall Behr; Jan 23, 25

■ ZURICH

OPERA
Zurich Opera
Tel: 41-1-268 6400
Oberon: by Weber. New production staged by Johannes Schaaf, conducted by John Eliot Gardiner in his Zurich Opera debut; the first night is Wednesday

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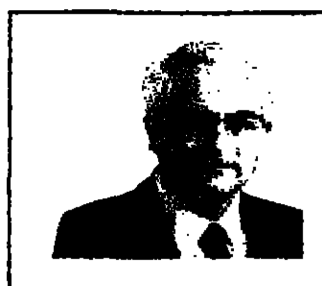
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Mark Gay of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS



Martin Wolf

Caging the bankers

One important lesson from the east Asian crisis is that international capital flows can threaten economic stability. Some regulation is required

Few can have imagined the enormity of what would follow devaluation by a medium-sized developing country. Only a little over six months have passed since the Thai baht fell. Yet already it is necessary to search for longer-term lessons.

The present international financial crisis is not, yet, the most serious since the second world war. If - a big if - the Asian turmoil halts here, the post-1982 debt crisis in Latin America will remain the more devastating. But the current crisis is more worrying, for at least two reasons. First, the countries of east Asia had been uniquely successful in securing a broadly shared rise in living standards. Second, the disaster cannot be explained by fiscal or monetary profligacy. What had been an outstandingly successful private-sector route to economic development now seems blocked.

Conventional wisdom suggests the lesson is that east Asians should become as western as possible as quickly as possible. This is the philosophy underlying the programmes of the International Monetary Fund. Yet the cardinal east Asian mistake could well be not that they liberalised too little, but rather that they liberalised too much and, above all, too imprudently.

What has erupted in east Asia is, it now appears, a dire mixture of currency, corporate and banking crises. A helpful perspective on the origins of such crises can be derived from two unpublished papers. The first is by Frank Veneroso, a financial consultant, and Robert Wade, a professor at Brown University. They argue that Asia's high-debt model of economic development is not an insanity, but a logical consequence of the structure of their economies and the aspirations for rapid economic growth.*

These economies have high savings rates - around a third of gross domestic product - and very high rates of economic growth. Much of the savings is generated by the household sector, but is needed by fast-growing businesses. Banks are the intermediaries. They provide a safe home for household savings. But the result is high levels of leverage compared with countries where slower-growing companies are better able to finance investment out of retained earnings.

This system has generated very high rates of economic growth over a long period. Yet the financial structure it has produced, with high ratios of bank liabilities to GDP and of debt to corporate equity, is inherently risky. To manage these risks, it has three safety mechanisms: the long-term relations between companies and banks, which turn debt into quasi-equity; the constraints on the ability of depositors to take their money out of the domestic banking system; and the power of fiscally prudent governments to tax.

In another paper, Paul Krugman of the Massachusetts Institute of Technology argues that if a bank's owners know they will capture the gains from a successful investment, but can walk away from losses, they have an incentive to choose the investment that will give the highest return in the best of all possible worlds.** This Prof Krugman calls the Pangloss value, after the character in Voltaire's *Candide*. What happens if Dr Pangloss is wrong? Disaster.

One mistake east Asians have made is to tolerate a shift in lending from manufacturing, which is exposed to international discipline, towards property development, where the bank-driven asset price bubbles Prof Krugman describes are a far greater threat. But the impact of this error has been multiplied by the involvement of foreign lenders, with no commitment to support debtors through bad times.

Short-term foreign borrowing, property bubbles, or both, have played central roles in all the east Asian financial crises, including that in Japan. But short-term foreign borrowing is particularly problematic, because the domestic lender of last resort is then unable to help. Once confidence is shaken, the result must be a downward spiral, with devaluation leading to mass insolvencies, a flight from the currency and further devaluation.

So far at least, IMF programmes have failed to halt the spiral. The reaction of outsiders to the continuing failure is captured perfectly in the massive downgrading of South Korea's sovereign debt (see chart).

With hindsight, it is evident that east Asian governments made big errors. The core of the mistake was to permit, even encourage, short-term foreign borrowing and exacerbate the calamity by fixing exchange rates and tolerating runaway property lending.

The immediate question is how they can hope to escape from their predicament. The challenge is huge, partly because of the heavy debt overhangs, both domestic and foreign, under which their economies now labour. At present, however, they have no effective institutional means to turn debt into equity on the required scale or to transfer future savings from the household sector to companies, other than through banks. In time, the needed securities markets may emerge. But, with old mechanisms destroyed, it could take years to create new ones.

The more generally applicable question, however, is what to do about capital account liberalisation, which the IMF is strongly promoting in all its programmes. To the extent that this will create openings for inward equity investment or long-term borrowing, this still seems sensible enough, even though east Asians at least have no need for large-scale inward transfers of foreign savings. They do need to halt the current outflow of capital. But the evidence now seems clear that any substantial net draft on foreign savings creates huge risks. For countries with savings rates as high as those of the east Asians, such risks hardly seem worth running.

The big difficulty, however, concerns short-term borrowing. What the east Asian crisis demonstrates is that governments will not allow financial systems to implode. Bank borrowing, if big and general enough, is likely to become sovereign borrowing. Indeed, almost any large-scale international borrowing, even by non-banks, threatens economic stability if it becomes big enough to threaten the currency. It cannot be ignored by policymakers.

At the least, there is an overwhelming case for permanent prudential regulation of foreign borrowing, particularly short-term borrowing, by commercial banks. If the US banking system, for example, had short-term D-Mark liabilities of \$1,500bn (£920bn) the Federal Reserve would be very anxious indeed. Yet, proportionately, that was the size of the short-term foreign-currency liabilities of a Thailand or a Korea.

Prudential control over short-term foreign currency borrowing by institutions underpinned by the state is inescapable. The crisis shows, once again, that banks fall into this category - they are part of the public sector. Unregulated flows of short-term international capital are a licence to rack up losses at the expense of taxpayers. If banks are not to be reformed, they must be more securely caged.

The Asian Financial Crisis: the Unrecognised Risk of the IMF's Asia Package, by Frank Veneroso and Robert Wade, 1998, available from wade@rsage.org.

***What Happened to Asia? by Paul Krugman, 1998, available from http://web.mit.edu/krugman/www/DISINTER.html.*

Martin.Wolf@FT.com

Korea: how the sovereign rating collapsed

Recent rating history	Fitch IBCA	S&P	Moody's
1990			A1 (Apr)
1995		AA- (May)	
1996	AA- (Jun)		
1997	A+ (Nov 11) A (Nov 26) BBB- (Dec 11) B- (Dec 23)	A+ (Oct 24) A- (Nov 25) BBB- (Dec 11) B+ (Dec 22)	A3 (Nov 27) Baa2 (Dec 10) Ba1 (Dec 21)

Source: Fitch IBCA

David Gardner looks at the limited options for dealing with a defiant Iraqi regime

Saddam stand-off

The US Central Intelligence Agency, in a report leaked this month, has concluded with 20-20 hindsight that Saddam Hussein came out ahead in last autumn's confrontation with the UN over weapons inspections. The Iraqi despot evidently thinks the same - and is trying to press his advantage.

Last week he blocked one inspection team from the UN Special Commission (Unscom), claiming it was headed by an American spy. Then, at the weekend, he proclaimed that Unscom - charged with uncovering and dismantling Iraq's weapons of mass destruction - would be thrown out unless the UN sanctions in force since the end of the Gulf war seven years ago were lifted within six months.

It is tempting to see this as Mr Saddam rattling the west's cage yet again. But a lot can happen in six months, especially in the Middle East.

During the past six months, the virtual collapse of the Middle East peace process amid widespread Arab perception of US bias towards Israel has damaged Washington and started Iraq's rehabilitation. Mortal foes of the Iraqi leader, such as Syria and Iran, have begun mending fences with Baghdad. Iran itself, the other target of Washington's "dual containment" policy, has broken out of isolation. Why should Mr Saddam not gamble on what the next six months might hold?

From his point of view, seven years of draconian sanctions costing Iraq around \$100bn (£61bn) in foregone oil revenues have left barely a dent on his regime. By contrast, the UN embargo has inflicted misery on the Iraqi people so appalling as to cause outrage throughout the Arab world and disquiet at the UN itself. Although the permanent members of the UN Security Council are united in condemning Iraq's challenge, there is little to suggest they agree on what to do next.

Until last October - when France, Russia and China baulked at US and UK proposals to ratchet up sanctions in response to Iraq's failure to come clean on its biological and chemical weapons programmes - Washington acted as if the post-Gulf war consensus on Iraq would last indefinitely. But Mr Saddam has uncovered layers of division over tactics.

Washington's European and Arab allies, along with Russia, have questioned four aspects of US policy:

- The indulgent attitude towards Israel's refusal to fulfil its undertakings in the regional peace process;
- Its weakening of the case for UN sanctions against Iraq by insisting that everyone comply with US sanctions on Iran;
- Frequent US assertions that sanctions would remain until Mr Saddam's regime falls;
- Washington's willingness to use force, now backed only by the UK.

The second two points bring into focus the difficulty of dealing with Iraq. Until last November's confrontation, the US regularly went beyond UN Security Council resolutions, implying that its policy was aimed at bringing down the Saddam regime rather than merely destroying its non-conventional arsenal. "The logic of our position is that sanctions will be in place until he's gone," a senior administration official admitted. France and Russia, whose oil companies are as keen to get into Iraq as into Iran, complain that this removes any incentive for Baghdad to comply with Unscom.

Richard Butler, the Australian chief of Unscom who arrived in Iraq yesterday for talks on the stand-off, stated categorically last week: "If Iraq complies, I can promise that we will not move the goalposts and that sanctions will be lifted." The US has murmured under pressure about "light at the end of the tunnel" if Iraq co-operates, but has yet to spell out its position.

In its stead, and to Washington's irritation, France has started arguing for a phased approach. In the French view, Unscom's relatively clean bill of health on Iraq's nuclear programme should enable the UN to close that file - and possibly loosen the embargo to encourage similar co-operation on chemical and biological weapons.

At the moment, this looks sufficiently unrealistic for the US to insist on full compliance before sanctions are relaxed. The problem is how to enforce that. The US, supported by the UK, has assembled a formidable force in the Gulf. But there is no appetite - especially in the US - to restart the Gulf war. Short of this, pin-prick cruise missile strikes - as in 1993 and 1996 - have achieved nothing. Indeed, Washington's Arab friends believe these token actions strengthened Mr Saddam.

There is much talk and punditry about targeted attacks on the regime's palaces, weapons installations and elite units. But Mr Saddam has shown no qualms about using "human shields". Besides, there is little guarantee such strikes would hit easily concealable germ and nerve gas agents, and there is no diplomatic consensus behind military action.

Some Iraq specialists say the time has come to think about an alternative government-in-exile to Mr Saddam, with a generous programme to reconstruct Iraq built around it. In this view, it is less important that Iraq's exiled opposition is a rabble than that the west signal its good intentions and work to delegitimise Mr Saddam.

Such a strategy, even if bolstered by the demand for full compliance and backed by the threat of military force, is unlikely to yield short-term results. But then again, Mr Saddam is not alone in realising that a lot can happen in six months.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Investment efficiency is the key to employment in Europe

From Mr Criton M. Zoakos.

Sir, Franco Modigliani and Giorgio La Malfa's article "Perils of unemployment" (January 16) correctly attributes Europe's high unemployment to existing investment practices but, oddly, it omits the fact that Europe's total investments as a percentage of gross domestic product are almost twice as high as that of the US, where unemployment is less than half that of Europe. In 1997, Europe is likely to have invested 30 per cent of its aggregate GDP, resulting in 1.8 per cent GDP growth, whereas the US invested 17 per cent of its GDP and enjoyed a 3.5 per cent growth. It should thus be evident that the efficiency rather than the mere scale of investment is the relevant underlying cause behind employment trends.

Efficiency (that is, the manner by which investible resources are deployed), in turn, depends on a given financial system's level of "democratisation", if you will, namely its level of information transparency and its level of popular access to capital. On both these counts, the European financial systems are far different creatures from that of the US. The recent Credit Lyonnais episode speaks volumes about the state of transparency. As for popular access, whereas more than 40 per cent of US households participate in financial markets, in France it is 12 per cent and in Germany 7.5 per cent.

Perhaps it is time to address not only labour market reform but, more urgently, financial system reform in Europe.

Criton M. Zoakos,
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Mirage of cutting cost of capital

From Mr Gregory V. Milano.

Sir, Lex indicates ("French buybacks", January 16) the increasing attention to shareholder value in France. However, the emphasis on reducing the cost of capital through higher gearing may be a mirage. The increased use of lower cost debt is offset by higher risk and, therefore, expected returns from shareholders. The main benefit gearing provides to the cost of capital is a tax benefit which is not significant in France due to *Avoir fiscal* (which has a similar effect to advance corporation tax in the UK).

The true benefit of higher gearing is the management discipline arising from transforming the opportunity cost of equity into a cash cost of debt. The cost of capital becomes explicit. This is particularly important in mature businesses where managements of cash rich companies often make aggressive investments, including diversification, because they have the funds rather than because the economics make sense.

Nothing stops French companies from distributing cash and increasing gearing via higher or special dividends. The advantage of share buybacks is that investors can choose whether they want a distribution or increased share of equity.

Gregory V. Milano,
managing director,
Stern Stewart Europe,
13 St George Street,
London W1R 9DE

Damaging effects of contracts practice

From Mr Martin E. Simons.

Sir, Leaders of big companies seem not infrequently to forget the implications of their pronouncements and decisions on smaller, weaker brethren. The idea of compensating directors for having shorter-term contracts in line with evolving corporate governance is ludicrous and against the public interest.

The impact of such practice can be devastating for smaller companies, which should shorten contracts, not least to shed ineffective directors. If compensation is required, necessary management rejuvenation may be deferred because of the up-front impact on cash and profits.

Ian Martin, non-executive director of the Granada media and hotels group and chairman of Unigate ("Granada attacked over 'grubby move'", January 7), and his ilk should expect to be challenged and upbraided at the annual general meetings of both Granada and Unigate.

Martin E. Simons,
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London SW15 6HJ,
UK

Polish economic reform is gaining momentum

From Mr Waldemar Dabrowski.

Sir, The Solidarity trade union always makes for good headlines ("Tractor test for Poland's reforms", January 14). However, your correspondent's implication that the Ursus tractor factory situation could drive a coach and horses through the new AWS/UW coalition government's economic reform programme is rather strained. It should be clearly understood that Ursus is not representative of the rest of Polish industry. Like its many counterparts in western Europe, these state-owned dinosaurs are notoriously difficult to restructure and privatise in a consensual manner. Leszek Balcerowicz's reform programme, including privatisation, has actually gained momentum under the new government, and has enjoyed the full, and public, backing of Solidarity leader Marian Krzaklewski. Several successful privatisations of large, state-owned companies have recently taken place. The sad fact about Radio Maryja's attempt to buy out the Gdansk shipyard is that it failed. On the other hand, the Szczecin shipyard, which was privatised by more conventional means, is now Europe's busiest shipyard!

In a similar manner, opposition to foreign investment needs to be seen in its true context. PAIZ (the Polish Agency for Foreign Investment) has conducted a series of research projects on public opinion concerning foreign investment in Poland. The majority of Poles are firmly in favour of foreign investment, only 17 per cent remain opposed to it to varying degrees. Our analysis reveals that these people are in the main: rural dwellers, over 50, with no further or higher education, pensioners or the unemployed, or those who work as farm-labourers and peasant farmers. A resounding 75 per cent of Poles support the presence of foreign investment, and appreciate the benefits it brings in terms of new technology, new jobs, and increasing integration with global markets.

With or without the Ursus tractor factory, successive Polish governments continue to plough a straight furrow on foreign investment policy and activity.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday January 20 1998

Enter the Euro bank

The beginning of next year should see the birth not just of a new currency, the euro, but also of a new central bank, the European Central Bank (ECB). There will be intense scrutiny of both the policy decisions and the credibility of the ECB, particularly in the difficult transition years following monetary union. The ECB must ensure that it is up to the task.

It will have the unenviable task of setting one monetary policy for the large and varied collection of Emu countries. Formally, it will probably set a monetary target (as the Bundesbank does now), and maybe a subsidiary inflation target.

But these targets are unlikely to reveal much about how the ECB will set interest rates. Emu will bring about such unpredictable shifts in the demand for money that monetary targets, in the early years at least, will be all but irrelevant. Policy will be much more discretionary than the targets would suggest.

Interest rates in practice will be heavily influenced by economic conditions in the "core" Emu countries, and particularly France and Germany. This is both because of these countries' central role in Europe and because they represent the bulk of output within Emu.

The problem is that the appropriate monetary conditions for these countries will leave others in serious danger of overheating. If price pressures do build in some of the periphery countries, they will not be able to resort to a depreciation to restore competitiveness. Inflexible labour markets in many European countries could impede the necessary adjustments – and the result could be a painful recession.

The decisions of the ECB will be further complicated by variations between countries in the transmission mechanism – the way that interest rates affect the real economy. And there will also be the exchange rate to consider. The ECB is likely to follow a fairly passive exchange rate policy, mainly because external trade is less important to the euro area than intra-European exchanges. However, the euro exchange rate could be volatile in the early months as investors get used to the new currency. The ECB may find itself unable to ignore this.

The difficulties that lie ahead make it all the more important that the ECB quickly builds up credibility, and gains the confidence of both investors and the European public.

Unfortunately, its plans in this area give some cause for concern. The constitution of the ECB gives a low priority to transparency and accountability. The ECB will not have to publish minutes of its meetings, and will only have to account to the European Parliament once a year. The Bundesbank has got away with minimal transparency because of its strong anti-inflation record. The ECB has no such history.

The current row over the head of the ECB has also raised doubts about political influence over a supposedly super-independent central bank.

Setting interest rates after Emu will be fraught with difficulties. The ECB must have the correct institutional framework, and be transparent in its decision-making. There is too much at risk to do otherwise.

This is the second in a series of leaders on Emu. The first appeared on January 13.

Ruinous rivalry

After the prime minister, Gordon Brown is the pivotal figure in Tony Blair's cabinet. The chancellor has the capacity to emerge as the intellectual architect of Mr Blair's administration in much the same way as Nigel Lawson did for Margaret Thatcher during the mid-1980s.

Events of the past week, however, have reminded us how sensitive is the relationship between prime minister and chancellor. It acts as the hinge of modern British government. The history of recent Conservative administrations provides ample evidence of the chaos wrought when the two fall out.

Mr Brown was foolish to co-operate with a biography which exposed his lingering resentment at being forced to cede the party leadership to Mr Blair in 1994. Aides to both men have since been still more foolish in waging a proxy war over the issue. Mr Blair and Mr Brown are much closer than the jealousies of their respective camps suggest. But damage has been done.

The loser is Mr Brown, whose character is diminished by the suggestion that he still nurses a grudge. As long as attention focuses on his unrequited ambition, it will detract from his radical approach to policymaking.

He will not advance his hopes of eventually succeeding Mr Blair by undermining the unity of the government.

There is also a broader lesson to be drawn. After a heady honeymoon, Mr Blair is discovering the business of government is altogether more complex and demanding than the rhetoric of opposition. Fumbles over European economic and monetary union and welfare reform have shown how problems easily solved in opposition become intractable in office.

The mistakes and misunderstandings have also shown how the exclusive control over a wide range of policymaking granted to Mr Brown in opposition does not work in government. In many areas the Treasury will naturally play the lead role, but if reforms are to stick they must have wider ownership across the cabinet. The creation of a new ministerial group to co-ordinate welfare reform is a useful step in this direction.

For his part, Mr Brown would be wise to seize his present opportunities rather than to concern himself with what might have been, or what might yet be. Mr Lawson's fate should remind him that when prime ministers and chancellors fall out, the former prevail.

Atatürk's legacy

The Turkish ruling elite is angered by its inability to convince west Europeans that Turkey is a western and European country. But some of its efforts to keep Turkey on the westernising path of Mustafa Kemal Atatürk, the republic's founder, are making matters worse.

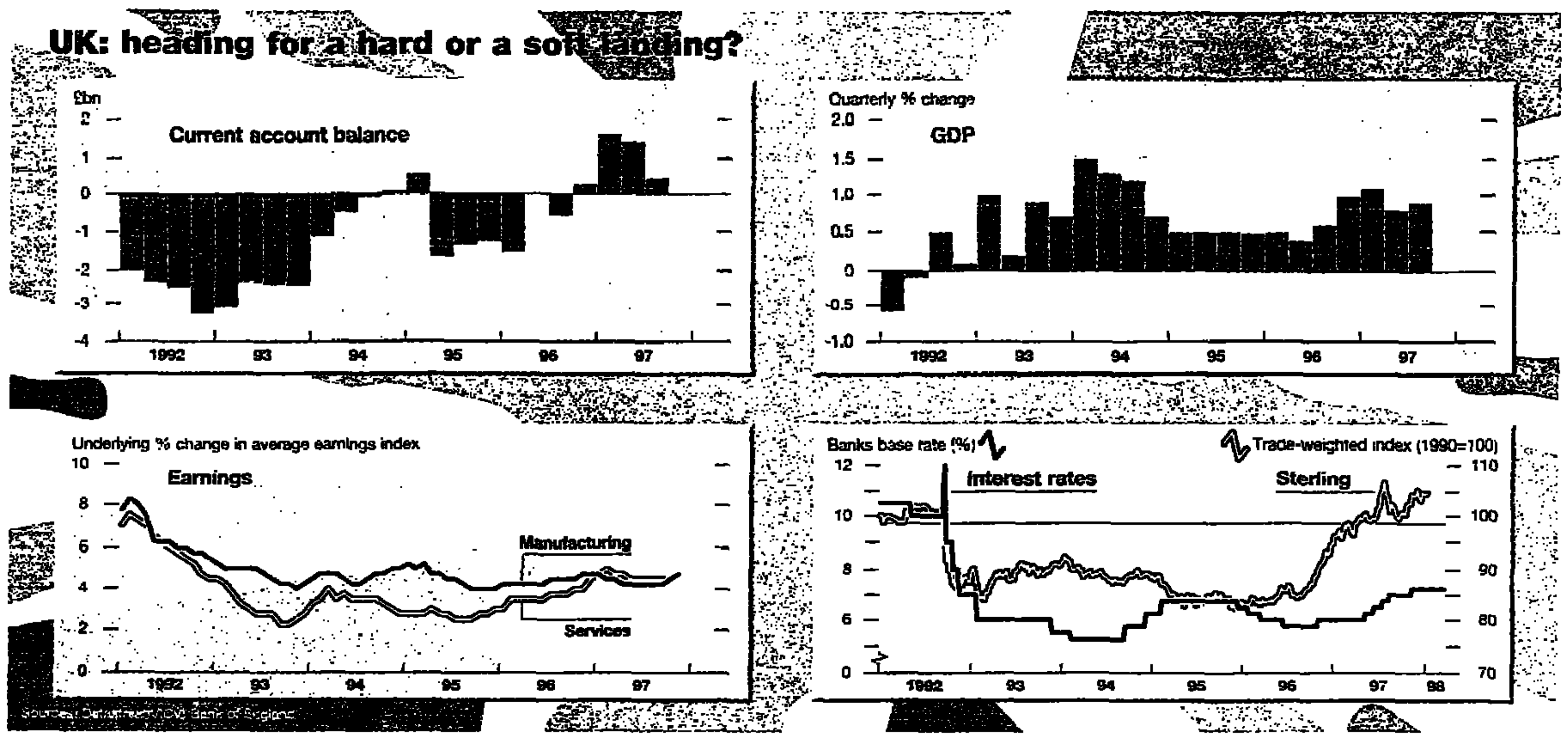
Last Friday's decision by the constitutional court, dissolving the Welfare party and banning its leaders from politics for five years, was a case in point. Most western governments sympathise with the elite's desire to prevent Necmettin Erbakan and his colleagues from making Turkey a less western and more Islamic country. But to prevent them even from competing in elections betrays a terrible lack of confidence in democracy, and so takes Turkey further away from the west, not closer.

Any democracy may have to protect itself from people who seek power through the bullet. But this was a party that had chosen the ballot box, and with some success, being the largest in the present parliament. Until six months ago its leader was prime minister. And it has now been banned, not for any abuse of power or act of violence, but on the basis of allegedly unconstitutional statements made by some of its leaders.

The decision comes on top of a series of undemocratic moves by the armed forces to thwart and then remove Mr Erbakan's government. First they took foreign and defence policy into their own hands. Then they intervened in education policy. Finally they put such pressure on his coalition partners that the government fell apart.

In only one way have these actions brought Turkey closer to Europe: Mr Erbakan has appealed to the European Court of Human Rights. Thus even the most Islamically minded Turks are discovering the value of European institutions. It would be an excellent moment for other Europeans to show their commitment to human rights and democracy in Turkey, had they not just decided, at last month's Luxembourg summit, to exclude the country from the EU enlargement process.

Repairing relations with Turkey is the hardest foreign policy task facing the British EU presidency – and a vital one if Europe is to avoid being permanently trapped in a Greek-Turkish quarrel once it starts accession talks with Cyprus in April. This task deserves an effort from the UK prime minister similar to that he has lately devoted to Northern Ireland.



Fasten your seatbelts

There is no doubt, says Robert Chote, that UK growth will slow. The only questions are when, and whether the landing is bumpy

Nigel Lawson, Britain's chancellor from 1983 to 1990, once observed that the UK's macro-economic policies fell into two categories: too little, too late and too much, too late. He was writing when the Treasury ran the economy. Under Gordon Brown, the present chancellor, short-term demand management has become the responsibility of the Bank of England. The next few months will reveal whether UK economic policy under the Bank is any better than it used to be.

Eddie George, the Bank's governor, has no doubt what the economy needs in the short-term. "If we are not now to run into a period of excess demand and accelerating inflation, the rate of growth of the overall economy needs to moderate – quite soon and quite sharply," he told the Chemical Industries Association last week. In short, there must be a slowdown. But there are serious doubts about how that can be best achieved. As recent gyrations in the price of interest rate futures contracts illustrate, the markets cannot make up their minds whether the Bank has done too much, too little or just enough to bring this about.

Their uncertainty is felt by the Bank itself, that is by the nine-member monetary policy committee to which decisions on interest rates have been entrusted. The minutes of its last-but-one meeting, in early December, concluded: "There was uncertainty about where the economy was in relation to capacity and this made the policy judgment very difficult". In the end the committee's judgment was do nothing: it left interest rates unchanged at 7.25 per cent, a decision reaffirmed at its subsequent meeting early this month.

But it is clear from the minutes of December's meeting that some committee members believe it might be difficult for the Bank to hold fire much longer. One view – probably espoused by chief economist Mervyn King – was that the economy's slack had already been used up. On this view, swift action might be needed now, to avoid even-more drastic measures later.

"If growth slowed gradually so that activity levels remained above trend, it would prove necessary to tighten policy while output was falling," the minutes said. "On such a view, policy might need to be tightened again quite soon if there was not clear evidence in the early part of the new year that the economy was slowing sharply".

Despite the dangers of pushing up a high pound still further, many City economists are now coming round to the view that rates will indeed have to rise soon. For one thing, early anecdotal evidence regarding pre-Christmas trade in the shops proved characteristically misleading. After a disappointing start, the British Retail Consortium reported that sales picked up in Christmas week and were 4.8 per cent up in cash terms on the year for December as a whole. More alarming, last week brought the unexpected news that underlying average earnings growth leapt from an initial estimate of 4.25 per cent in the year to October to 4.75 per cent in the year to November – above the rate which the Bank deems compatible with the 2.5 per cent inflation target that Mr Brown has told it to pursue.

Against this, the doves in the Bank – of whom DeAnne Julius is said to be the most outspoken – may argue that enough has been done already to slow the economy. Interest rates have been raised five times since the Labour government took office last May. Fiscal policy is continuing to tighten and sterling's strength at last seems to be depressing exports. On top of all this comes the Asia effect. The wave of devaluations there will further weaken demand for British exports and cut the cost of imports.

Several indicators are due this week that could shed light on occasion a fresh change of heart. Today we discover whether consumer confidence is continuing to slide in the wake of November's base rate increase. And tomorrow comes the first official estimate of retail sales growth from the Office for National Statistics. The number of goods leaving the shops is expected to have shown a healthy increase last month, but just as important will be the prices charged for them.

"Spending will be high not because the consumer is rampant, but because retailers overstocked ahead of Christmas, and had to give the stuff away in sales," argues Geoffrey Dicks at NatWest Markets. The extent to which robust Christmas spending relied on price-cutting would not have been picked up in December's inflation figures. These were collected before the last-minute rush got under way. Comparing the value and volume of retail spending should reveal much.

On Thursday the latest quarterly survey from the British Chambers of Commerce will be scrutinised for clues to the health of the service sector, which has been the motor of recent economic growth and where the signs of skills shortages and overheating have so far been most evident. Even if the service sector is continuing to grow strongly, Friday's preliminary official estimate of gross domestic product in the fourth quarter should show a sharp slowdown in the rate of expansion for the economy as a whole. Industrial production – which accounts for almost 30 per cent of the economy – was depressed in both October and November, shaving perhaps as much as a quarter-point from fourth-quarter growth in gross domestic product.

Whether this will mark the beginning of a slowdown that is soon enough and sharp enough to satisfy Mr George and his fellow members of the monetary policy committee remains to be seen. The economy looks certain to slow throughout 1998. The dilemma for the monetary policy committee is whether it will do so quickly enough to get inflation back on target, especially at a time when earnings growth is accelerating.

Optimists point out that earnings growth spiked early last year, as a result of bonus payments, only to subside soon after.

Bonus payments have been an important factor again this year, but more worrying is the fact that the acceleration is being accompanied by an upward drift in average pay settlements. According to analysts IRS Eclipse, fourth quarter wage deals (weighted by the number employees affected) rose by a percentage point to a five-year high of 4.5 per cent.

This should come as no surprise. Indirect tax and interest rate increases had pushed the headline rate of inflation to 3.7 per cent by October and November, with a brief spike above 4 per cent in prospect this spring. Against this background, it is hardly surprising that employees are pushing for bigger pay deals to maintain living standards.

With unemployment still falling sharply and thus intensifying competition for scarce skilled workers, employers are having to cave in to wage demands. Hence the chancellor's plaintive calls for pay restraint, pointing out that today's excessive pay deal will be cancelled out by tomorrow's mortgage rate rise. Unfortunately, while this may be true across the economy as a whole, it offers little incentive for any one employee or group of employees to restrain their demands.

The monetary policy committee will be helped next month by the new forecast prepared for its February Inflation Report. Michael Saunders, at Salomon Smith Barney, believes the upward pressure on wages and the recent strength of inflation would ordinarily have prompted the Bank to raise interest rates in February, notwithstanding the collapse in net exports and deceleration in consumer spending that it expects in coming months. "However, in light of the extra downside risks from Asia, we suspect that the Bank will leave rates on hold," he said.

The Bank paid scant attention to the Asian crisis in its last Inflation Report and economists will be keen to see what its assessment is now. Professor Charles Goodhart, one of the members of the monetary policy committee, told a House of Lords committee last week that the Asian crisis meant that UK interest rates would not need to rise as high as they otherwise might have done. But he did not say whether he felt that interest rates had already peaked.

The Asian devaluations will subdue inflation directly, by making imports cheaper. "The UK's imports from Korea and the Asean bloc are concentrated in consumer goods and thus the pound's surge against these currencies will have a marked downward effect on UK retail goods prices," Mr Saunders predicts. Nonetheless, he still expects the underlying rate of inflation – excluding mortgage interest payments – to top 3 per cent in coming months.

The devaluations in Asia will also tighten the screw on exporters, who have already been hit by the strength of sterling over the past 18 months. Mr Dicks points out that the official trade weighted index for sterling excludes nine Asian economies which together account for 8.4 per cent of UK trade and which have devalued by more than a quarter over the past six months. This means that sterling's appreciation has been even sharper than it looks. Official figures show it has appreciated by 20 per cent from its 1996 average; factoring in the Asian countries brings the rise nearer 26 per cent. All the more reason to expect the drop in demand for UK exports this year to be severe.

It looks on current evidence as though the monetary policy committee members will tighten the screw one more time next month. Indeed, there are even rumours that Mr Brown will tell his emissary at the meeting to encourage them to do so. The chancellor must hope that this does not turn out to be another case of too much too late. If it does, the resulting "hard landing" – and the rise in unemployment – may do his standing more damage than any number of unauthorised biographies.

· OBSERVER ·

Weeping in Warsaw

■ Hostilities could break out at any moment between Poland's treasury and the heavy brigade of western investment banking. Several banks hoping to work on the showpiece privatisation of TPSA, the country's telecoms operator, have been disqualified; apparently they failed to fulfil the conditions of the tender because they didn't provide all the right documents.

Nine consortia were in the running to advise on the lucrative $2bn share offering – a list that reads like a "Who's Who" of global investment banking. Minister in charge Alicja Kornasiewicz won't say which banks – or how many – have fallen foul of the strict tender rules. But Warsaw's foreign banking community isn't impressed.

Bankers say in private that the tender process, designed to weed out fraudulent bidders, is too complicated. It's plain daft, they argue, asking a blue-chip bank to declare that its chief executive has paid his taxes.

Foreign banks have been in similar trouble before. Last year almost all the bidders were disqualified from the competition to work on the sale of Pekao SA bank; Credit Suisse First Boston managed to get its application right and won the tender.

On that occasion, rumbles of protest melted away as the banks thought better of queering their pitch with the treasury in the run-up to the telecoms sale. This time dirty linen could be washed in public.

Writ large

■ Nomura Securities is back in the dock after two former executives and a one-time Ministry of Finance official were arrested for allegedly using "excessive entertainment" – bribery by any other name – to win bond underwriting business.

Just another case of the prosecutors clamping down on corruption? Not according to Tokyo's conspiracy theorists. They point out that most broking firms have long been suspected of similar deeds. On this view, the timing of the arrests – just before Nomura announced yesterday's quarterly results – was more than a coincidence.

The fact is that Nomura's doing relatively well of late. Despite last year's scandal over payments to sokaiya racketeers, the group's been forging ahead of its rivals in a most un-Japanese way, and winning back clients on the stock exchange.

The conspiracy theory doesn't stop there. How better for the Tokyo prosecutors office to flex its muscles – and show who's in charge of fighting corruption – than by nabbing a few senior bureaucrats, particularly if they come from the mighty Ministry of Finance? The prosecutors deny any such agenda. But officials in the MoF's securities bureau are looking anxiously over their shoulders.

Raw courage

■ Israel's cabinet is in for a spot of belt-tightening if Michael Eitan has his way. The science and technology minister is asking colleagues to forego *burekas*, the greasy stuffed pastries served to munching ministers during those gruelling cabinet meetings.

Eitan, a recent intake to the 18-month-old cabinet, has already had enough of the Middle Eastern delicacy. He wants trays of cut vegetables to be served instead. "They are tastier and healthier," he says.

There's nothing crude about *crudités*.

Tune in

■ Gabor Princz, head of Hungary's sometimes troubled Postabank, embarks this week on a new career – as disc jockey. The man at the helm of the country's second-largest financial institution will be spinning vinyl every Wednesday night on Radio Bridge, which started life a few years back as Budapest's English-language station.

As far as Observer knows, 42-year-old Princz has got no real experience behind the microphone. But it must have helped his cause that Postabank owns the station – along with several newspapers and a few other businesses not exactly essential to its core banking business.

It's not clear what kind of music Princz, a keen financial supporter of Hungary's ruling Socialist party, will be playing every week between 10pm to 2am. But if his show is anything like his banking career, rock 'n roll is sure to feature; only last spring Postabank suffered a run on deposits and had to fall back on government aid.

Flaming tasty

■ Will McDonald's stop at nothing to prevent Burger King eating into its market share?

An update sent to investors by the burgers 'n' buns giant outlines a worrying new initiative aimed at motivating the bright sparks behind the counter and improving customer service: it's dubbed "igniting employees".

The Financial Times

100 years ago

The Klondyke Situation
A shrewd definition of the Klondyke situation was given to us on Saturday by a peculiarly observant stockbroker. "It comes just to this," he said. "All the transportation companies on the Pacific Slope are engaged night and day in telling cheerful lies about Klondyke in order to secure a rush of passengers – in the certain knowledge that they will have to take them all back again pretty quick."

50 years ago

Monte Video Water
Stockholders in the Monte Video Waterworks Company have now received an official statement from their directors regarding the expropriation of the company's properties by the Uruguayan Government. The Uruguayan Chamber of Deputies has passed a Bill providing for the acquisition of the waterworks undertaking under existing expropriation laws, using Uruguayan sterling funds in London.

U.S. Exports
The United States Government may control American exports to all countries in the same manner as shipments for Europe, control of which was announced for March 1, according to the Journal of Commerce here.

FINANCIAL TIMES
Tuesday January 20 1998

Chase wins Norway's state oil fund contest

Tim Burt in Stockholm

Two US banks and a leading UK fund manager have won the international contest to handle equity investments for the Norwegian state petroleum fund, one of the largest global asset management prizes of recent years.

The Norwegian ministry of finance has appointed Chase Manhattan of the US as the fund's global custodian, responsible for holding its shares and clearing settlements by the fund, which is switching up to 50 per cent of its assets from foreign government securities to international equities.

Those assets – totalling NKr14bn ($1.8bn) last year – are expected to grow to NKr570bn by 2002 as Norway, the world's second-largest oil exporter after Saudi Arabia, transfers more surplus oil revenues into the fund.

Last year, the Norwegian government prompted fierce competition among fund managers by announcing plans to invest between 30 and 50 per cent of the fund in foreign stock exchanges. At the time, it argued that long-term investment in equities promised higher returns than government securities.

State Street Bank & Trust of the US and Barclays Global Investors of the UK have been selected as the fund's senior global investment managers. Two junior index-linked fund managers have also been appointed but the Norwegian Central Bank, which is responsible for the petroleum fund, has so far refused to name the institutions involved.

The Financial Times, however, has learned that Chase beat off strong competition from US rival Citibank to win the global custody contract, while State Street and Barclays Global Investors were selected after a six-month beauty contest among international fund managers.

The appointment represents an important step in State Street's European expansion, particularly in Scandinavia, where it has built up stakes in Norsk Hydro, Ocean Rig and SAS Norges, the Norwegian arm of Scandinavian Airlines System. It also underpins the international ambitions of BGI, formed by the consolidation 18 months ago of BZW Barclays Global Investors and BZW Investment Management. Together, State Street and BGI boast total assets under management of more than $600bn.

But reliance on overseas fund managers has prompted complaints by some of Norway's largest banks. Den norske Bank has urged the finance ministry to use the fund to develop Norway's own asset management industry.

British PM fails to win Sinn Féin over to peace plan

By John Kampfner, Chief Political Correspondent

Tony Blair yesterday failed to persuade Sinn Féin to accept a blueprint devised by the British and Irish governments for a new constitutional settlement for Northern Ireland.

In a double blow to the peace process, the UK prime minister held a difficult meeting with the IRA's political wing as a splinter Republican group shot dead a prominent Loyalist.

The murder of Jim Guiney by INLA gunmen in his shop on the outskirts of Belfast raised the prospect of a return to all-out sectarian violence. It was the sixth tit-for-tat killing in the three weeks since the murder of Billy Wright, a Loyalist paramilitary leader, in the Maze prison.

Gerry Adams, the Sinn Féin president, said after more than an hour of talks with Mr Blair in Downing Street that the draft "heads of agreement" proposal tabled by the governments last week fell far short of Republican demands.

"Anyone who thinks an internal settlement is going to work or some assembly with a few nationalist knobs stuck on to it is going to work is not living in the real world," Mr Adams said.

Martin McGuinness, Sinn Féin's chief negotiator, described the situation as "very grave".

Mr Blair's official spokesman said the Sinn Féin delegation had shown "a determination to be constructive" and that further meetings were planned.

"It wasn't a shouting match. It wasn't banging the table. As with the last meeting, it was a proper discussion as opposed to people reading out scripts," the spokesman said.

He suggested Mr Blair and Mr Adams had used virtually the same language to condemn the upsurge in violence. "They agreed that the recent killings are an attempt to derail the process and that we must not be deflected from the democratic and peaceful path."

The two governments have set a deadline of May for a deal at the multi-party talks, and are clinging to the hope that none of the parties will want to be blamed for a breakdown and for the end of the paramilitary ceasefires, which would inevitably follow.

Mr Adams made clear the draft agreement laid too much emphasis on a strong parliament for Ulster and on underpinning its relationship with Britain, and not enough on cross-border all-Ireland bodies.

Sixth murder blights talks, Page 9

Yeltsin returns to Kremlin with rebuke for ministers

By Chrystia Freeland in Moscow

Boris Yeltsin, Russia's president, publicly dressed down his most senior ministers yesterday on his return to the Kremlin after a break of almost four weeks.

Mr Yeltsin made his first day back in the office an occasion to remember by tearing a strip off his government for failing to pay wage arrears to civil servants.

"Last year was a failure as far as our obligations are concerned," he scolded Victor Chernomyrdin, the prime minister, and his two reformist first deputies, Anatoly Chubais and Boris Nemtsov.

The rebuke, broadcast on television, strengthened rumours that the president might be contemplating major cabinet changes, perhaps in late February, when the government is due to present a report on its performance.

Mr Yeltsin's robust remarks also appeared calculated to dampen speculation about his health. In December a viral infection forced him into a sanatorium for two weeks, and he has just returned from a second two-week break, prompting concerns that he was no longer able actively to rule the country.

Yesterday, Russia's senior ministers could have had few doubts about the president's intention to reassert direct, personal control.

Mr Yeltsin dismissed his ministers' insistence that continued wage arrears were caused by inefficient and corrupt regional governments.

"For him, you can't say there are federal, provincial or municipal Russians," a presidential spokesman explained. "As long as people have not got all their wages for last year, you can't say the executive has met its obligations."

Mr Yeltsin's outburst, which was in keeping with his management style, bodes particularly ill for the two young reformist ministers he brought into the government last spring.

Mr Chubais and Mr Nemtsov had promised the president that their radical programme would bring dramatic improvement. But nine months on, as teachers prepare for a general strike this week over unpaid wages and the economy is still stagnant, Mr Yeltsin's patience with his "young wolves" appears to be running out.

The president also announced a new administrative system, based on personal responsibility for individual officials, to ensure efficient execution of the government's plans for 1998.

Oil 'looting' audit, Page 2
Lex, Page 16

Ciba considers 'white knight' bid for Colloids

Continued from Page 1

155p, which it initially raised to 175p yesterday. Ciba's offer *plan centres around a cash* offer of 182.725p, including interim and final dividends worth 3.65.

Although Ciba made no firm offer, it signalled its seriousness by instructing advisers at Credit Suisse First Boston to spend nearly £57m buying 4.57 per cent of Allied Colloids' *shares at up to 182p per share.*

Hercules, advised by Deutsche Morgan Grenfell and Cazenove, bought a similar stake. It is not believed to have sought a recommendation from Allied's directors.

The 26 per cent increase in *Hercules' offer surprised many* analysts. Hercules dismissed Allied's last defence document as "uninspiring" on Friday and said some of the cost savings identified by the bid target would be lost to price competition.

Ciba approached Allied on Friday and analysts were *divided over whether it would* return with a higher offer.

Ciba, whose shares have risen strongly since it was spun off from Novartis last March, has ample scope for acquisitions, with a market capitalisation of SFr12.4bn *($8.3bn) and net debt of* SFr1bn. Its shares closed SFr3.75 higher at SFr172.50 yesterday.

Analysts predicted that Hercules would fight hard to win Allied Colloids, having failed to pull off two bids last year. They saw slightly less overlap between Allied and Ciba, *whose UK operations include* pigments businesses, but said competition authorities may still examine any Ciba bid.

THE LEX COLUMN

Latin leverage

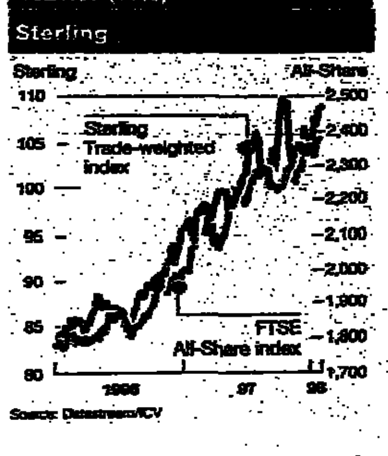
Think of Italy as a giant leveraged buy-out (LBO). With debt more than 120 per cent of gross domestic product – twice the level specified in the Maastricht Treaty for monetary union – the Italian state holds with Belgium the European Union's indebtedness record. Now that Italy is hitting all the other targets, it could probably only be excluded from the single currency because of its indebtedness, and even that is unlikely.

As with any LBO, high borrowings concentrate the mind. The classic remedy is to boost cash flow, refinance borrowings with lower interest rates and sell assets. Indeed, Italy's Prodi government has effectively been doing all three. The primary budget surplus (excluding interest payments) is 6.7 per cent of GDP. The cost of servicing its debt is falling as interest rates have converged on German levels. And asset sales have picked up, notably with last year's privatisation of Telecom Italia.

As a result, the government's projection that debt/GDP ratio could fall to 60 per cent in 2009 is perfectly possible. Economic growth on its own will boost the ratio's denominator; while lower interest charges and privatisation proceeds will free cash to cut the numerator. The only caveat is that Italy will have to maintain a primary surplus of 5-6 per cent for over a decade. So far, the desire to qualify for Emu has provided the necessary spur. In future, it will have to devise another mechanism to keep itself on the straight and narrow.

FTSE Eurotop 300 index: 1021.57 (+7.8)

Sterling



Source: Datastream/ICV

US equities

US earnings growth is expected to slow to between 5 and 7 per cent this year. Yet most analysts and investors still expect share prices to rise about 15 per cent this year. How can these two assumptions be reconciled?

At its simplest, share price rises are a combination of corporate earnings growth and the expansion (or contraction) of the price/earnings multiple used to value those earnings. Of last year's 31 per cent rise by the S&P Composite, little over a third – 11 per cent – was due to earnings growth and the bulk to the widening of the p/e from 18.0 to 21.3 times, as measured by trailing earnings. Assume earnings grow 7 per cent this year; in that case, the p/e would have to rise to 23 to generate a 15 per cent return.

How realistic is this? Lower inflation, lower volatility and the resultant decline in the equity risk premium have been behind the huge stock market gains over the past three years. But that revaluation may be ending. Most analysts now put the risk premium at 3-4 per cent, down from 8 per cent historically. It is *hard to see it falling* further, since volatility is rising again. Future inflation expectations are also already low at 1.7 per cent, as measured by the spread between 10-year normal and index-linked bonds. The only way to see them going much lower is through outright deflation – but that would badly hit corporate profits. Either way, investors' hopes for equities look too optimistic.

Yukos/Sibneft

By merging Yukos with rival Sibneft, Mikhail Khodorkovsky will fulfil his vision of creating one of the world's biggest oil companies. Whether Yuksi – as the merged entity will be called – will be one of the most profitable in the consolidating Russian oil industry is an altogether different proposition. Neither company has in the past shown much appetite for shareholder value-enhancing measures. Basic principles of corporate governance, such as financial transparency and equal treatment of minority shareholders, are neglected.

Nor does the fact that both managements have shied away from restructuring bode well for attempts to extract savings from the combined entity. But if new blood is brought in, the potential for improved performance is huge. Exploration and production operations could be contracted out, refineries upgraded and staff numbers reduced. And together the two companies are better placed to raise capital to meet the challenge from Sidanco and Gazprom, now strengthened by partnerships with BP and Shell.

With both companies already highly geared, plans to enter keen bidding for Rosneft, the largest Russian oil company still to be privatised, may offer foreign investors an opportunity to buy an equity stake. Exxon, whose Russian operations would dovetail neatly with Rosneft, and Elf are in the frame. Both would bring cash and management expertise. But they should insist on concrete improvements in Yuksi's corporate governance first.

Sterling

City economists are like old dogs; they struggle to learn new tricks. None predicted sterling's powerful rally in 1996-7 and few believed it would endure. Now, with sterling again above DM3 and close to its highest trade-weighted value for a decade, nay-sayers are once more united in their scepticism. The origins of this habit are easy enough to understand; like England cricket-watchers, they have had a lot of practice in watching a collapse. Moreover, it is the message most corporate treasurers and equity strategists want to hear. Alas for them, sterling may no longer be the pushover it once was.

Two factors underpinned its rally; a positive interest rate differential over Europe, and the strength of the dollar. They do not justify some of the current froth, but nor are they about to disappear. Sure, UK rates may be close to a peak and the economy set to slow. But with average earnings growth approaching 5 per cent, the Bank of England is not about to retreat. And while a deteriorating trade account may prove the dollar's Achilles' heel, that is hardly imminent.

More difficult is whether fundamental changes in UK competitiveness justify a permanently higher level of sterling. *Prima facie*, the combination of 5 per cent unemployment, strong sterling, solid growth and little deterioration in the trade account suggests they might. So while some weakening from current levels is likely, the 1998 average looks unlikely to slip below last year's DM2.84.

See additional Lex comment on Allied Colloids, Page 21

FT WEATHER GUIDE

Europe today

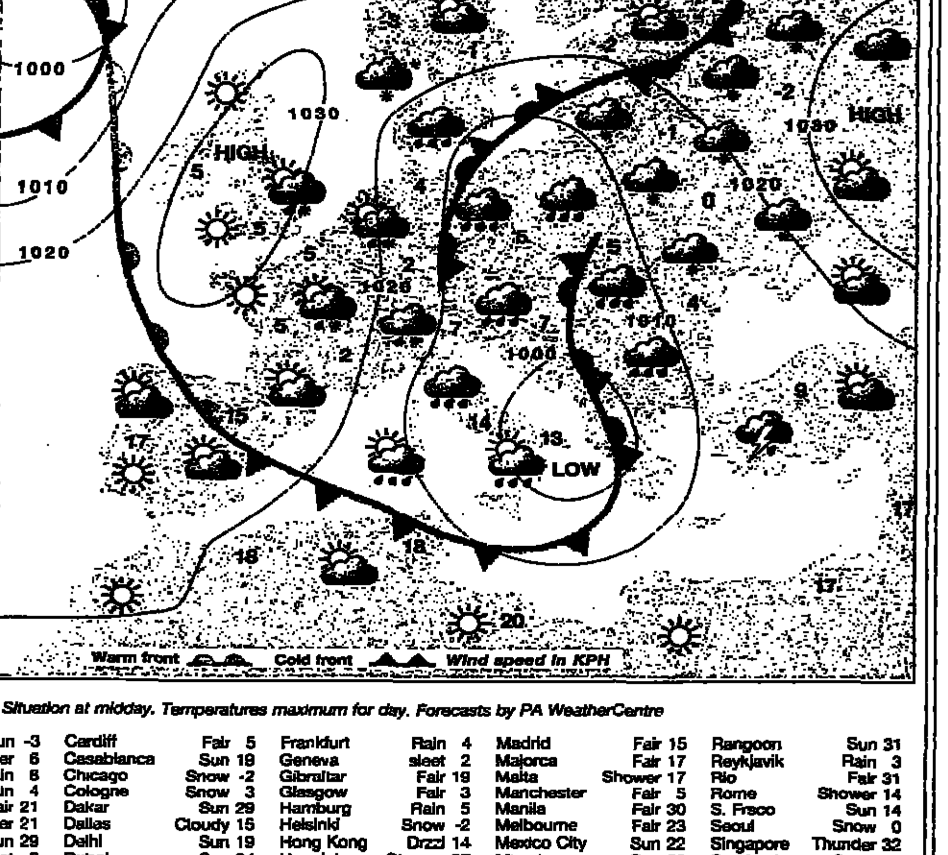
Many parts of Scandinavia will have a dry day with sunny periods. However, there will be a few snow showers in the south, especially on Baltic coasts.

The Low Countries, Germany, Austria and Switzerland will be very unsettled. Steady and at times heavy rain will turn to sleet and snow before brightening from the north. Eastern France will have sunshine and showers with snow in the mountains, but elsewhere it will be dry and sunny.

The eastern and western Mediterranean will also be sunny but the central Mediterranean will have showers.

Five-day forecast

Much of Europe will become mainly fine but it will remain cold. The showery weather in the central Mediterranean will gradually move east, leaving fine weather in many areas.



TODAY'S TEMPERATURES

Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

	Maximum/	Beijing	Sun -3	Cardiff	Fair 5	Frankfurt	Rain 4	Madrid	Fair 15	Rangoon	Sun 31
	Celcius/	Belfast	Shower 6	Casablanca	Sun 19	Geneva	sleet 2	Majorca	Fair 17	Reykjavik	Rain 3
Abu Dhabi	Sun 24	Belgrade	Rain 8	Chicago	Snow -2	Gibraltar	Fair 19	Malta	Shower 17	Rio	Fair 31
Accra	Sun 31	Berlin	Rain 4	Cologne	Snow 3	Glasgow	Fair 3	Manchester	Fair 5	Rome	Shower 14
Algiers	Shower 18	Bermuda	Fair 21	Dakar	Sun 29	Hamburg	Rain 5	Manila	Fair 30	S. Frsco	Sun 14
Amsterdam	Cloudy 4	Bogota	Thunder 21	Dallas	Cloudy 15	Helsinki	Snow -2	Melbourne	Fair 23	Seoul	Snow 0
Athens	Shower 15	Bombay	Sun 29	Delhi	Sun 19	Hong Kong	Drzzl 14	Mexico City	Sun 22	Singapore	Thunder 32
Atlanta	Sun 13	Brussels	sleet 2	Dubai	Sun 24	Honolulu	Shower 27	Miami	Sun 23	Stockholm	Snow -1
B. Aires	Fair 30	Budapest	Shower 7	Dublin	Cloudy 4	Istanbul	Fair 13	Milan	Cloudy 10	Strasbourg	hail 4
B.ham	Fair 3	C.hagen	sleet 3	Dubrovnik	Thunder 13	Jakarta	Fair 34	Montreal	Cloudy -3	Sydney	Shower 26
Bangkok	Thunder 34	Cairo	Sun 20	Edinburgh	Fair 3	Jersey	Fair 7	Moscow	Fair -5	Tangier	Fair 17
Barcelona	Fair 16	Caracas	Sun 27	Faro	Fair 19	Johannesburg	Thunder26	Munich	Snow 1	Tel Aviv	Thunder 17
						Karachi	Sun 27	Nairobi	Thunder 25	Tokyo	Fair 14
						Kuwait	Sun 15	Naples	Thunder 15	Toronto	Cloudy -3
						L. Angeles	Sun 18	Nassau	Sun 26	Vancouver	Rain 7
						Las Palmas	Cloudy 23	New York	Fair 3	Venice	Cloudy 8
						Lima	Shower 30	Nice	Sun 16	Vienna	Shower 6
						Lisbon	Fair 17	Nicosia	Shower 17	Warsaw	Rain 2
						London	Fair 5	Oslo	Sun -3	Washington	Fair 6
						Lux.bourg	Snow 1	Paris	Shower 5	Wellington	Fair 19
						Lyon	hail 5	Perth	Sun 29	Winnipeg	Fair-10
						Madeira	Cloudy 19	Prague	sleet 3	Zurich	Snow 2

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Bestfoods selects key ingredients

Bestfoods of the US, formerly CPC International, plans to focus on three core, worldwide businesses: its Knorr soups and sauces brand, its Hellmann's salad dressings business and its food service – supplying foods to restaurants and other catering outlets. Page 19

Doubts over Berezovsky's role in Yuksi

Mikhail Khodorkovsky, chairman of Yukos, the Russian oil company planning to merge with Sibneft, has said the combined company, to be called Yuksi, should be insulated from Russia's political storms. There are uncertainties surrounding the role in the new company of Boris Berezovsky (left), a controversial businessman and former government security official. Page 20; Lex, Page 16

Metals analysts expect prices to fall

Metals analysts responding to a Financial Times poll are forecasting lower copper and lead prices this year than in 1997. A large majority of analysts also expect nickel, tin and lead prices to fall. However, nearly half suggest average aluminium prices will be higher. Page 24

First Pacific in strategic shift

Manuel Pangilinan, First Pacific's managing director, is charting a potentially tricky course for the Hong Kong-based conglomerate. He plans to sell a prize European asset and has set his sights on Asia. Page 18

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 24

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Moenus Text	14.70	+	1.20
Prisbe Media	90	+	5.2
Ser Systeme	242.50	+	54.50
Falls			
Akzo Fraser	277	–	17
Bremer Vlkn	1.88	–	0.10
Lindner	32	–	2
LONDON (Pence)			
Rises			
Bluebird	112½	+	27½
Proteus	83	+	23
SmithKline Bchm	743	+	61
Falls			
ASDA	189½	–	5½
BKN	1148	–	70
Pilkington	104½	–	10½
TORONTO (C$)			
Rises			
Prudent Steel	12.80	+	0.80
Telescene Fm	13.50	+	1.00
Utd Cdn Sir	16.00	+	1.00
Falls			
Golden Star	5.50	–	0.50
Livent	14.60	–	1.15
Pede Systems	2.00	–	0.55
PARIS (FFr)			
Rises			
Chausseria	13	+	6
Immeubles Lyon	548	+	51
Looda	100	+	9
Falls			
Rosatie	190	–	14.2
Sofinnova	260	–	30
Sodecco	8.60	–	1.85
TOKYO (Yen)			
Rises			
CSK	3480	+	180
Fuji Bk	700	+	48
IBJ	991	+	100
Maeda Corp	332	+	28
Yuasa Corp	88	+	7
Falls			
Zexel	281	–	15
HONG KONG (HK$)			
Rises			
Amoy Props	5.75	+	0.15
China Res	10.70	+	1.10
Citic Pac	24.45	+	1.75
Hysan Devt	12.85	+	2.40
Wharf Hldgs	11.75	+	1.45
Falls			
Winsor Ind	1.60	–	0.05
BANGKOK (Baht)			
Rises			
Carpets Inter	42.00	+	9.50
Lanna Lignite	118.00	+	26.50
Phatra Insc	106.00	+	23.00
Thai Prudntr	208.00	+	42.00
Falls			
Thai Stp	12.50	–	2.00
Unique Gas	45.50	–	19.50

Toronto prices at 12.30. New York closed.

Opel agrees job cuts package

German deal could affect GM's UK arm

By Haig Simonian, *Motor Industry Correspondent*

Adam Opel, the German subsidiary of General Motors, plans job cuts to tackle falling profits and rising competition from European and Asian rivals.

The package, to be announced today, will give workers a five year guarantee against compulsory redundancies while initiating an accelerated early retirement scheme and hiring freeze.

The deal could affect *employment prospects at* Vauxhall, GM's UK subsidiary, where union leaders fear for jobs if the company fails to win approval for a second model at its Luton plant.

The strength of sterling has damaged Vauxhall's competitiveness to the extent that the UK is now seen by GM as a "high cost".

The German deal hammered out with union leaders will not set a final employment target, nor confirm GM's long-term plan to cut up to 30 per cent of its European workforce. Late last year, GM announced 1,900 redundancies in Antwerp.

Opel will commit itself to maintaining production at the *western German plants of* Rüsselsheim, near Frankfurt, Bochum and Kaiserslautern. The Eisenach plant in the east will not be affected.

Considerable new investment will be allocated to Rüsselsheim, including the possibility of an entirely new plant on the site. At Kaiserslautern, where Opel builds petrol and diesel engines in two factories, a threat to the older engine plant will be mitigated by news that it is a prime contender for a new engine family.

However, in a similar package to recent deals at Volkswagen and Mercedes-Benz, Opel's job guarantees will be part *of wider investment plans* which will ultimately reduce employment through greater productivity.

Opel, which employs 46,500 in Germany, will freeze new hiring in all but essential areas, such as information technology and product development.

The company will emphasise that productivity at its established plants is well behind greenfield sites, such as Eisenach, in spite of investment. Executives will put the moves in the context of similar projects at VW, its biggest rival, and rising competition in Europe, notably from Japanese and Korean carmakers.

British union leaders fear the job commitments in Germany, where large-scale redundancies are impeded by tough labour protection laws, may put further pressure on GM to axe jobs at Vauxhall.

Vauxhall executives have been pressing GM to protect the 4,600 jobs at Luton by approving plans to build the next generation Corsa hatchback in the UK.

According to Vauxhall, demand for the current Corsa, built in Spain and Germany, warrants an additional site. Union leaders fear Luton could be vulnerable to closure without a second model in the longer term.

Both Vauxhall's UK car plants at Luton and Ellesmere Port on Merseyside are relatively small compared with *GM's German factories.* Luton built nearly 160,000 Vectras last year, while Ellesmere Port made 120,000 smaller Astras. The future of Ellesmere Port is seen as more secure, because GM also makes six cylinder engines there.

R&D's contribution to long-term performance is becoming clearer

Financial community develops a taste for industrial research

It would have unthinkable 10 years ago and unlikely five years ago – a meeting of minds between the worlds of finance and industrial research.

In the UK, directors of science-based companies have long attacked the City's short-termism and technical ignorance, while the financial community accused researchers of making no effort to explain what they were up to.

However, a recent conference at the Royal Academy of Engineering in London showed a remarkable improvement in relations. Senior figures from the financial and industrial communities queued up to emphasise the importance of spending enough on research and development and the perils of cutting R&D to push up profits in the short term.

"Communications between *the City and industry* have made a huge leap forward over the last five years," said Carol Galley, vice-chairman of Mercury Asset Management. "R&D is a subject to which we at Mercury attach huge importance. A successful R&D programme *is absolutely critical* for competitive advantage."

Alan Jones, chief executive of cables group BICC, agreed: "There has been a dramatic improvement [in attitudes to R&D] and the improvement has accelerated over the last two or three years."

Robert Malpas, a veteran industrialist who is now chairman of Cookson and co-chairman of Eurotunnel, went further: "To the extent that there may be a problem gaining support for investment in R&D ... it can usually be attributed to two causes – low profitability, and the shortcomings of top management in matters concerning R&D and technology," he said. "In short, it's our fault, not the City's."

Those involved give several reasons why financial institutions worldwide are taking R&D more seriously. One is that a range of distorting factors – from high inflation rates to dubious accounting *practices* – are *disappearing,* making clearer the real contribution of R&D to long-term corporate performance.

Another is that fierce competition is raising the standards of corporate analysis by fund managers, investment *banks and other institutions.*

Ms Galley cited Ericsson of Sweden as a good example of a company creating shareholder value through R&D. Since 1992 it has spent more than SKr64bn ($8bn) on R&D to build up its world-leading cellular radio division, helping improve performance and profitability. Ericsson's equity is now worth 20 times more now than in 1992.

But paying more attention to R&D doesn't necessarily mean spending more on it. "We should remember that the productivity of R&D is increasing by leaps and bounds," said Mr Malpas.

The annual R&D Scoreboard, which the UK Department of Trade and Industry has published since 1991, shows that average spending on R&D by the world's largest industrial companies has remained steady at about 4.5 per cent of sales.

Drug companies have *led the way in disclosing* details of R&D to potential investors, said Charles Brown, managing director of international equity research at Goldman Sachs.

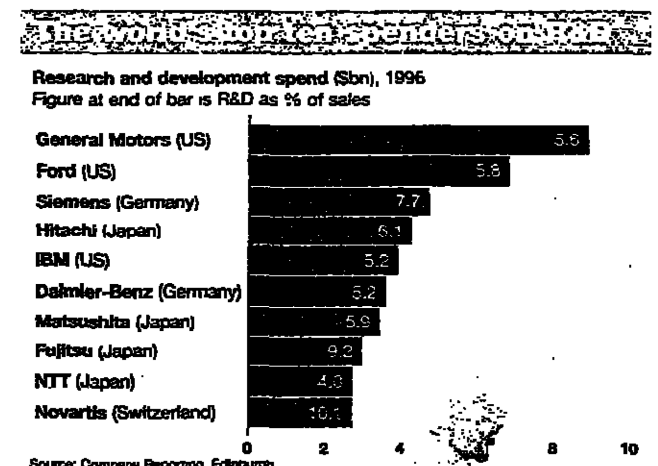
Although investors in the *UK and elsewhere in Europe* are adopting a more sophisticated attitude to science-based growth, they still lag well behind their US counterparts. US investment houses now require analysts to give earnings projections five years ahead, *said Michael Hughes,* group economic adviser for BZW in London. "This longer time horizon forces US analysts to take more account of R&D than we do here."

The other factor that works in favour of the US in competi*tion with Europe is its more* developed capital market for technology-based companies.

As Ms Galley pointed out, venture capital investments in technology-based sectors account for a quarter of the total in Europe and two thirds *in the US.*

The development of Easdaq as a European counterpart to Nasdaq should help companies raise research funds, she said. "However, we should continue to move quickly or else stand by and watch European com*panies migrate to the USA.*"

Clive Cookson



Source: Company Reporting, Edinburgh

Japanese groups scale back chip output

By Michiyo Nakamoto in Tokyo

Leading Japanese semiconductor manufacturers are scaling back production and capital spending plans because of a fall in the price of computer chips and the economic slowdown in Japan.

Hitachi, one of the top five Japanese semiconductor makers, said it would cut production at eight domestic plants in an attempt to stem losses in its memory chip business.

The company plans to halt production for between four and seven days a week in February and March, cutting output by about 20 per cent. The decision stems from a sharp downturn in the memory market that has seen the price of 16-megabit dynamic random access memory chips plunge about 60 per cent since the *beginning of last year.*

Hitachi's move is highly unusual – semiconductor manufacturers generally try to keep facilities running constantly as it takes considerable time to restart production.

Yoshiharu Izumi, industry analyst at *UBS Securities* in Tokyo, estimates Hitachi is losing Y2bn ($15m) to Y3bn a month in its semiconductor business.

Hitachi's cuts follow Mitsubishi Electric's plans to close one of its US facilities, where it manufactures lower value-added 4-megabit D-Rams. This is believed to be the first closure of an overseas semiconductor factory by a Japanese company.

Meanwhile, Fujitsu, another leading semiconductor maker and Japan's largest computer manufacturer, said it was considering scaling back its capital investment plans by about 30 per cent.

Toshiba has postponed the construction of an advanced facility in southern Japan that was expected to start this year.

Meanwhile, NEC, Japan's leading semiconductor maker and the second largest in the world after Intel of the US, is consolidating production of 16-megabit D-Rams at its US *facility. The company will no* longer produce 16-megabit D-Rams in either Japan or the UK, where production costs are higher.

Analysts expect the largest Japanese semiconductor makers to report a second year of *losses in their semiconductor* businesses this financial year, with the exception of NEC.

Sokaiya scandal hits top Japanese brokers' results

By Gillian Tett in Tokyo

Japan's leading brokerages reported dismal quarterly results yesterday, highlighting the malaise in the industry ahead of planned "big bang" financial deregulation.

All three large brokers – Nomura, Daiwa and Nikko – said turnover and market share had fallen sharply in the three months to December. They blamed the scandal over payments to *sokaiya* racketeers, which has resulted in penalties and corporate clients cutting their ties with the groups.

However, some officials warned the downturn could continue for several months as the penalties remained in place and the market became more competitive ahead of deregulation. This is likely to boost further the position of foreign brokerages, which are now scrambling to build up their presence in Tokyo.

Nomura, Japan's largest broker, reported the most upbeat results, even though it faced the largest penalty over the scandal, including a suspension of part of its domestic business for five months last August. The broker reported a parent company loss of Y27.85bn ($214m) between October and December. This took its parent company profit to Y21.46bn in the first nine months of the fiscal year – 80 per cent lower than the same period a year earlier.

Its market share on the Tokyo Stock Exchange fell to 5.5 per cent in the nine-month period, the lowest of any big broker and down from 10.8 per cent last year.

Daiwa Securities, the second largest broker, and Nikko Securities, the third, saw market shares fall to 8.5 per cent and 7.2 per cent respectively.

Daiwa reported a parent company loss of Y12bn for October to December despite no administrative penalties in the period. The penalties, which include a four-month suspension of parts of its business, started in late December, and the company expects a "tough period" in the coming months.

Its current profit was Y7bn for the nine months, compared with Y42.3bn a year before.

Nikko reported a parent company loss of Y17bn for October-December and a loss of Y14.8bn for the nine months, against a profit of Y27.7bn last year. Its penalties also started in late December.

Nomura faces further penalties, Page 6; Observer, Page 15

Irish sell beef tested for BSE

By Clive Cookson, Science Editor

An Irish supermarket chain yesterday put on sale what it said was the first beef in the world tested for BSE, or mad cow disease.

It uses diagnostic technology from Proteus International, a UK biotechnology company whose shares closed 23p up at 80p in London.

SuperValu Supermarkets, part of the privately owned Musgrave Group, said all the beef going into its 168 shops throughout Ireland would be tested for prions – the infectious agents that cause BSE in cattle and its human version, Creutzfeldt-Jakob disease.

The testing is carried out by Enfer Scientific, another private Irish company which has an exclusive worldwide licence from Proteus for the BSE diagnostic technology.

Enfer performs the tests at its laboratory in Newbridge, outside Dublin, at a cost of I£22.50 ($31) per carcass. Proteus receives a 10 per cent royalty.

According to Proteus, BSE testing adds 4p to 5p per pound to the cost of putting meat into the shops. But SuperValu said it would absorb this without increasing beef prices "for the foreseeable future". The chain sells I£25m worth of Irish beef a year.

David Gration, Proteus chairman, said: "We hope this is the first step in the widespread acceptance of this test, which I am sure would be welcomed by consumers everywhere."

But its commercialisation is in the hands of Enfer. The Irish testing company said it had received several approaches from the UK and elsewhere in the Europe, but it wanted to make sure the procedure was working smoothly with SuperValu before extending it to other retail chains or meat companies.

The test has been validated independently by Ireland's Department of Agriculture veterinary research laboratory at Abbotstown.

Business halted at HK securities group

By John Ridding in Hong Kong

Hong Kong's financial industry regulators yesterday ordered members of the Capital Asia group, a diversified property-to-securities group, not to conduct new securities, futures and foreign exchange business.

Although the move stems from exposure to debts at an associate company, it is likely to fuel concerns about the territory's securities companies, amid sharp falls in financial markets. Peregrine, the territory's largest investment bank, collapsed last week, becoming Hong Kong's biggest casualty of the regional financial crisis.

The Stock Exchange of Hong Kong said C. A. Pacific Finance, a money-lending business and an associate of Capital Asia, was experiencing financial difficulties as a result of "over-concentration of three loans, one of which is a very large non-securities loan". A petition to wind up C. A. Pacific Finance had been filed, according to the financial authorities.

Capital Asia said the group was "now actively engaged in negotiations with potential investors with an intention to resolve the current financial problems".

The exchange said C. A. Pacific Finance was not registered with the Securities and Futures Commission, the securities industry watchdog, or the Hong Kong Monetary Authority. "Regulated entities have been properly managed under the SFC and Exchange's rules and regulations," it said.

In addition to the order from the Securities and Futures Commission, the Hong Kong Futures Exchange said it had ordered C. A. Pacific Futures to liquidate its positions by yesterday afternoon. The HKFE said it had earlier limited C. A. Pacific's business to the closing of open positions and that the various measures reflected uncertainty over the group's financial position.

Like many Hong Kong securities companies, Capital Asia is a diversified group with activities ranging from fashion to the trading of marine products. Although total group assets are relatively small, totalling HK$540m (US$70m) at the end of March 1995, the securities operations have attracted retail investors.

Problems at Capital Asia emerged as potential buyers expressed interest in parts of Peregrine, which collapsed as a result of exposure to troubled companies in the region, particularly in Indonesia, and the decline of regional currencies.

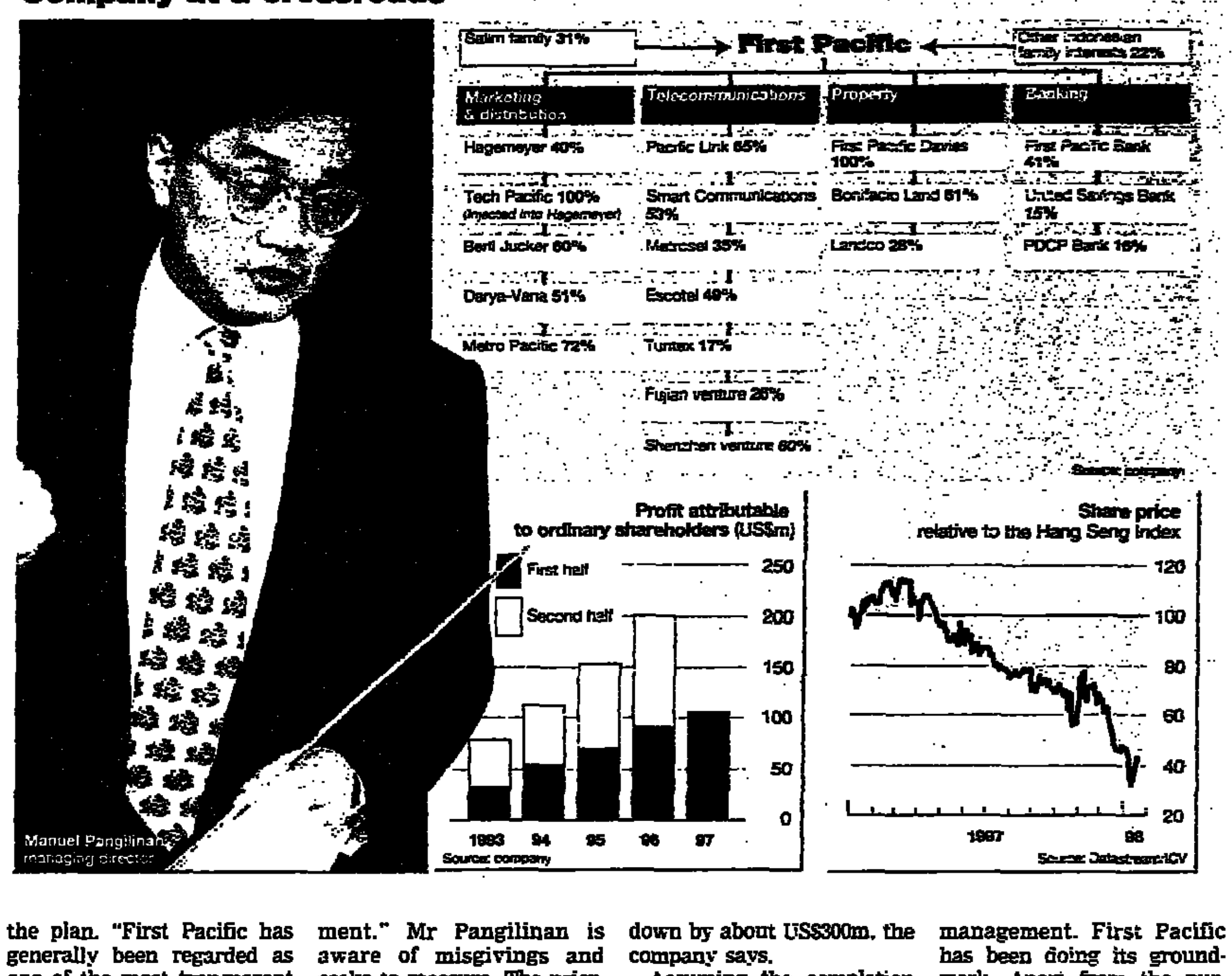
Banque Nationale de Paris said that it was looking at Peregrine's equities, asset management, brokerage and M&A operations. Other candidates to buy the equities and corporate finance operations include the Bank of China, Donaldson Lufkin and Jenrette, Bankers Trust, Banco Santander, Banco Bilbao and Canadian Imperial Bank of Commerce.

Peregrine Securities in the UK already supplies research to Oppenheimer, the US securities firm owned by CIBC, in return for a share of revenues.

Peregrine said most candidates sought to retain Francis Leung as managing director, partly to capitalise on his experience in Chinese equity issues. Executives at Peregrine hope due diligence can be completed by tomorrow, with a sale concluded by the end of the week.

First Pacific bucks the Asian trend

Company at a crossroads



In selling a prize European asset and setting sights on Asia, Manuel Pangilinan is charting a bold and potentially tricky course for First Pacific, the Hong Kong-based conglomerate he has built into one of the region's largest multinationals. With Asia mired in crisis the strategic shift might seem perverse. But Mr Pangilinan is moved by motives which are likely to drive business across the region as it seeks to revive. For now, cash is king. But attractive acquisition opportunities should soon emerge.

"We are at a crossroads," says First Pacific's managing director. Discussing plans to sell a controlling stake in Hagemeyer, the Dutch-based trading company, and the prospect of acquiring a strategic stake in San Miguel, the Philippines food and beverages group, he says the restructuring will secure First Pacific's Asian identity.

Not all are enthused by the logic. Shares in the company tumbled ahead of the announcement, losing more than 40 per cent of their value at the beginning of the year before regaining ground. Apart from the impact of the regional downturn on First Pacific's businesses, compounded by foreign exchange losses, the fall also reflected fears Mr Pangilinan would do what he now says he will.

While most analysts applaud the move to cut gearing levels of more than 90 per cent and see mergers and acquisitions emerging as a big growth opportunity, some have mixed feelings about San Miguel. "San Miguel's outlook is bleak at best for the next few years," says Stephen Thompson, chief analyst at Nikko Securities in Hong Kong, who predicts falling market share and rising competition. "This reorganisation might reduce the financial risk at First Pacific, but it raises other risks concerning San Miguel."

The head of research at another investment bank warns there is "a lot of politics" involved with any move for the Philippines company, now effectively in government hands, and that investors are worried by a lack of transparency over the plan. "First Pacific has generally been regarded as one of the most transparent of the big Asian companies," he says, referring to Mr Pangilinan's open style and the autonomy he enjoys from the Salim group, the Indonesian business empire which controls First Pacific. "But this has shaken sentiment." Mr Pangilinan is aware of misgivings and seeks to reassure. The priority, he explains, is to bolster the group's balance sheet. "Liquidity is the issue," he says. In that respect, the switch from a dividend stream from the group's 40 per cent Hagemeyer stake to debt reduction from the sale of the holding, which has a market value of US$1.6bn, is clearly advantageous. Combined with this year's disposal of Pacific Link, the Hong Kong mobile telecoms operator, gearing should fall to 10 per cent on a pro-forma basis. Net debts, also on a pro-forma basis, would fall from US$3.2bn to US$300m.

That should help to offset damage from the region's currency crisis. At the end of 1996, investments in subsidiaries represented about US$900m on the balance sheet. After the collapse of the rupiah, the ringgit and other regional currencies, that will have to be written down by about US$300m, the company says.

Assuming the completion of investment and disposal plans, Mr Pangilinan estimates there will be some US$900m free for new projects. At today's distressed values, that would buy quite a chunk of many regional stock markets. But the First Pacific chief rules out a rapid acquisition spree. "We will bide our time," he says.

As far as San Miguel is concerned, the calendar is not in First Pacific's control. The clock was started last week, when President Fidel Ramos gave the go-ahead for the sale of a 48 per cent stake in the group. But legal wrangles concerning the stake – seized in 1986 from allies of former President Marcos – fill the process with uncertainty. The approach is further clouded by opposition to First Pacific's intentions from San Miguel's existing management. First Pacific has been doing its groundwork. Apart from the purchase of a 2 per cent stake in San Miguel last year, it has been in contact with the Philippines government and with Eduardo Cojuangco, the Philippines businessman who owned a big chunk of the sequestered shares. Dismissing opposition from the company management, Mr Pangilinan says plans for a "significant strategic stake" mark a privatisation rather than a hostile bid.

Mr Pangilinan insists that value will remain the watchword. "The question will be whether there is the possibility of a turnround at San Miguel so that its earnings can rise to the point where it makes financial sense," he says. Investors are hoping that this focus on the bottom line can survive the political manoeuvring over any deal for San Miguel.

John Ridding

AMP unveils revamp ahead of its flotation

By Gwen Robinson in Sydney

AMP, Australia's largest insurance and investment group, took another step towards listing on the Australian Stock Exchange later this year with the announcement of a new company structure.

The reorganisation followed AMP's conversion on New Year's Day to a shareholder-owned concern – a formal demutualisation process under which members of the former AMP Society became shareholders.

Yesterday's announcement confirmed the group's intentions to proceed with its A$11bn (US$7.3bn) flotation, in spite of recent stock market upheavals triggered by Asian economic turmoil.

In what would be Australia's largest flotation this year, AMP plans to list on the Australian and New Zealand stock markets by June, with a prospectus to be issued to shareholders in late April or early May.

Analysts said the group could not afford to delay its proposed listing beyond June because of accounting requirements for its April-to-March financial year.

Under its new structure, the group will be organised into four broad arms: Australasian financial services, UK operations, asset management and general insurance.

The financial services arm, which operates in Australia and New Zealand, would come under AMP Life and encompass retail and corporate superannuation, life insurance and unit trusts.

In addition, a new AMP bank will be established as a separate subsidiary within AMP Life.

The UK operations – to be headed by Richard Surface, managing director of Pearl Group – would include Pearl, London Life and a 50 per cent stake in Virgin Direct, a joint venture between AMP and Virgin Group of the UK.

The group's international investment management business, which operates in Australia, New Zealand and the UK, would be placed under the single brand of AMP Asset Management.

General insurance business in Australia, New Zealand and the UK would operate under AMP General Insurance.

AMP is expected to report its earnings results for the year to December 31 in March.

While some smaller Australian companies have postponed planned flotations this year because of stock market upheavals, AMP remained confident that large flotations would continue to attract investors.

Analysts were similarly optimistic, pointing to the strong debut of Telstra, the Australian telecommunications giant, last November.

ASIA-PACIFIC NEWS DIGEST

Fujitsu, Cisco announce tie-up

Fujitsu, Japan's largest computer manufacturer, has agreed to market the products of Cisco Systems, the leading provider of networking hardware and software for the internet. The two companies have signed a global systems integrator agreement under which Fujitsu will sell and support Cisco products worldwide, and the two companies will work to make their network management software interoperable.

The deal marks a step forward for Fujitsu in building up its networking business, which the company expects to comprise the majority of its business in the near future. Fujitsu's customers are global corporations building global networks and Fujitsu needs to respond to their global needs, the company said.

Cisco, in which Softbank, the fast-growing multimedia publishing and services company has a stake, is the leading provider of networking products, ranging from routers to connectivity software. Fujitsu unveiled its strategy last year, spelling out the need to develop the ability to provide the networking solutions for their customers, which will all be moving towards network-based computing. Further co-operation being studied by the two companies covers multimedia technology and the formulation of standards. *Michiyo Nakamoto, Tokyo*

■ SOUTH KOREA

KAL sees big increase in losses

Korean Air, South Korea's largest airline, predicted its net losses for 1997 would more than double from Won211bn in 1996 to Won550bn ($340m) as a result of a sharp fall in the value of the Korean currency. KAL's earnings are sensitive to currency fluctuations, as most of its Won5,700bn debt is denominated in dollars because of the purchase of foreign aircraft. It estimated its foreign exchange loss on overseas debt at Won850bn.

KAL last year saw slow growth in passenger traffic, which rose 3 per cent during the first nine months of 1997 because of an economic downturn. Demand is likely to shrink this year as higher fares and the weak currency will discourage overseas travel. However, KAL said it expected increased traffic from foreign tourists visiting Korea attracted by lower prices, while cargo traffic should be boosted by growing exports because of the weak currency. The airline plans to cut costs by eliminating unprofitable overseas routes and reducing the number of flights. It will also sell and lease back aircraft to raise capital, while freezing or cutting wages.

Analysts believe KAL is in little danger of going bankrupt, in spite of a debt burden of six times equity, as a result of a strong cash flow adequate to cover interest payments and investments. *John Burton, Seoul*

■ FILM PRODUCTION

Top-tier dismissals at Japan group

The president and senior managing director of Shochiku, a Japanese film production company, were dismissed from their positions yesterday in a boardroom coup that industry sources said was likely to have been prompted by the company's banks.

Toru Okuyama, president, and Kazuyoshi Okuyama, senior managing director and a renowned film producer, were dismissed from their positions at the company – which is known for bringing the prize-winning *The Eel* to the world – and demoted to part-time directors. The board meeting which made the decision lasted just two minutes.

Nobuyoshi Otani, senior managing director, has been appointed president. Mr Otani explained the decision as a response to continuing investments by the father and son team in unprofitable film projects. "We could not just leave the two Okuyamas unattended because they made frequent personnel changes and rampant investments that resulted in sluggish earnings in the film division," he said.

However, industry sources said the two Okuyamas were likely to have been ousted under pressure from Shochiku's banks, which saw recurring profits at the company dwindle from Y1bn previously to Y578m ($4.5m) in the year to last February, when Shochiku had liabilities of Y28bn. "There appears to have been an increasing reluctance by the banks to support Shochiku," said one industry official.

Cinema World, a theme park which cost Y10bn, has been a disappointment, while the film company, which also operates the traditional Kabuki theatre, lost one of its big attractions, the star of the Tora-san series, after the lead actor died last year. *Michiyo Nakamoto*

■ CARMAKING

Toyota upbeat on Land Cruiser

Toyota, the Japanese carmaker, has forecast monthly sales of 1,500 units of its new Land Cruiser utility vehicle, its first model change in nine years. The new model, which was launched in Japan yesterday, places greater emphasis on safety and environmental considerations. Toyota has sold the Land Cruiser since 1951 and plans to export 71,000 new models to 150 countries this year.

The new model has a choice of two engines – a 4.7-litre petrol or a 4.2-litre diesel engine. The domestic price will start at Y3.58m ($27,700). *Reuters, Tokyo*

■ DAIHATSU

Asia turmoil to curb earnings

Daihatsu, the Japanese maker of mini-vehicles, said yesterday it would be difficult to reach its earnings estimates for the year to March. The company has cut output in Indonesia and Malaysia following worsening business conditions in the two countries amid the regional currency crisis.

"I think market conditions in Indonesia will be worse than those in Malaysia this year. We have no plan now to halt output, but we will review out output plans depending on developments in regional market conditions," said Iichi Shingu, president.

In 1997 Daihatsu's total sales rose 9.6 per cent to 744,187 units. The company forecast a rise of 0.9 per cent in exports in 1998, compared with a 64.9 per cent increase in 1997. *Reuters, Tokyo*

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COMPANIES AND FINANCE: THE AMERICAS

Analysts amend 'rosy' outlook despite evidence that companies remain robust

Asia casts shadow over results season

By Richard Waters in New York

With the latest US earnings reports season due to get under way today, *Wall Street has already switched* its attention to the first quarter of this year as the real test of corporate America's ability to withstand the effects of the crisis in east Asia. And, to judge from the evidence of recent days, that could mean a new wave of caution about corporate profits.

Companies reporting profits for the final quarter of last year include several of the largest banks, such as Chase Manhattan, Citicorp and J.P. Morgan, as well as International Business Machines and Johnson & Johnson. Today's reporting calendar has been swelled by yesterday's Martin Luther King holiday, which for the *first time* saw the US stock market and many companies closed.

Piecemeal evidence from those that have reported figures so far suggests that the final months of 1997 could have brought gains of nearly 10 per cent in the earnings per share of companies in the Standard & Poor's 500 index – a slowdown but still a robust showing after six years of steady profit increases.

The 75 companies in the S&P 500 that have already reported beat *expectations by an average of 2 per* cent, according to First Call, the US research agency. Though not representative of all companies in the index, the figure is in line with experience in most quarters.

Overall expectations are for a rise in earnings per share of 7.8 per cent for the final quarter.

The country's regional banking groups, whose earnings are largely insulated from events overseas, have led the way so far, with average gains of 16 per cent. But technology companies *have also turned* in some positive surprises, with Intel beating expectations by 9 per cent.

Nevertheless, events in the stock *market in recent days suggest* attention will fall on anything companies say about the outlook for the first months of this year, rather than on their reported earnings.

Uncertainty caused by Asia's foreign exchange crisis has coincided with a period when the strong dollar and pressure on profit margins at home had already caused many companies to take a more cautious outlook.

Last week, comments from companies such as Eastman Kodak, Intel and Motorola *prompted* Wall Street analysts to cut their earnings forecasts for both the first quarter of 1998 and the year as a whole. Most reported only negligi*ble effects from Asia because of the* low level of their existing sales in the region. However, Kodak said that the strong dollar would weigh heavily on its earnings in the coming months, while Intel reiterated that its sales this quarter would not rise above their level the previous three months.

The cuts to analysts' earnings forecasts could point to a broader revision ahead. Many on Wall Street have already begun to amend their rosy views of the first *quarter, reducing the expectations* for earnings growth from 17.1 per cent to 15.1 per cent. But this is still a higher rate of growth than companies achieved in any single quarter last year.

US market benefits from Knorr knowhow

Bestfoods plans to exploit a stable of brands that includes acquired tastes such as Marmite

Americans, it *is safe to* predict, will never acquire a taste for Marmite. The flavour of this thick, dark, savoury spread evokes concentrated industrial effluent infused with a lethal overdose of salt.

In Britain, Marmite is a *staple of the national* diet. But the US company that makes it – Bestfoods, formerly CPC International – acknowledges *that*, in most of the rest of the world, the substance lacks obvious appeal.

"I think you have to grow up with it *to* like it," *says* Dick Shoemate, chairman and chief executive.

And there lies the big question about Bestfoods.

It has some of the world's best known food brands: Knorr soups and sauces, Hellmann's salad dressings, Skippy peanut butter and Entenmann's baked goods. But how does the company expand them?

Many of the company's *products have reached maturity* in their own markets, and seem to have limited potential for geographic expansion.

Knorr's dried soups are big in Europe, but it hard to see why Americans, brought up on canned soups, would want to switch to them.

Bestfoods, based in Englewood Cliffs, New Jersey, took its present form at the *beginning of this month* when CPC International spun off its corn-refining operations and gave the new name to its remaining consumer foods business.

The company traces its origins almost to the beginning of the century, but it acquired many of its food brands – including Marmite, Bovril, Ambrosia and Pot Noodle in the UK – during a 10-year buying spree that *began in 1986*.

The company's recent earnings record has been patchy.

Net profits have bobbed up and down because of the cyclical nature of the corn-refining business and repeated restructuring charges.

Bestfoods has also faced the problem confronting most big international food companies: US consumers *and other developed countries* are eating more meals outside the home, reducing the demand for foods bought in the supermarket.

Mr Shoemate, who became chairman and chief executive in 1990, defends Bestfoods' operating profits. – excluding restructuring charges and the spun-off corn-refining business – *they rose by a compound* 11 per cent a year in the 10 years to 1996.

Still, he acknowledges the old CPC International may have been slow to exploit the potential of its brands.

That is something Bestfoods intends to put right by increasing the pace of innovation: the recent launch of Hellmann's pourable salad dressings, he *says, shows* the potential for leveraging the company's brands.

Mr Shoemate says Bestfoods' top priority is to focus on three, core, worldwide businesses.

The first two are the Knorr brand and the dressings business, because those are the group's two biggest strengths, and the third is food service – supplying foods to restaurants and *other catering outlets* – because that is a growth market.

Bestfoods' regional managers are given a great deal of autonomy, Mr Shoemate says.

"But every manager in the world is told: 'Those are the businesses you need to be in'."

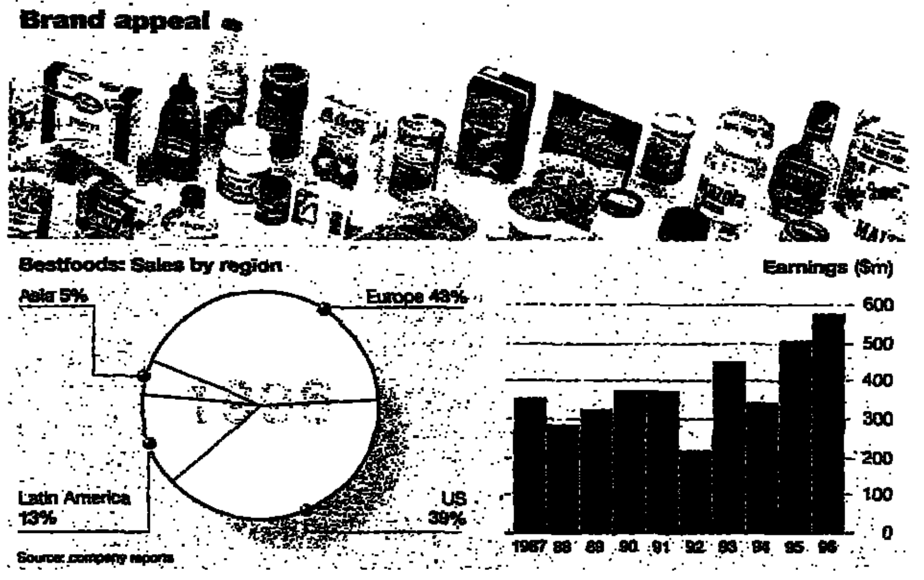
Innovation will be the key *to expanding these businesses* into new markets, Mr Shoemate says. Knorr, for example, may struggle to sell its soups in the US, but Bestfoods is using Knorr technology to introduce sauces, meal-makers and instant dishes that appeal to the time-starved US homemaker trying to serve up an appetising meal in a hurry.

"Knorr is on trend," Mr Shoemate says. "We can provide people with a way to prepare, relatively easily and dependably, an interesting and even exotic meal – something they would formerly have had to go to a restaurant to buy."

The focus on the three core businesses in no way implies an early demise for those brands with less international appeal. But sometimes, it is necessary to recognise a brand's geo*graphical limitations. "The* day I teach Americans to eat Marmite will be the day I teach the French to eat peanut butter," Mr Shoemate says.

Richard Tomkins

Brand appeal



Source: company reports

Venezuela expects to net more than $2bn from sale

By Raymond Colitt in Caracas

Venezuela expects revenues in excess of $2bn in the sale of a package of state aluminium companies towards the end of the first quarter of this year.

"Given that there is significant interest in purchasing the companies, we are certain that the final price will be significantly above $2bn," said Waldo Negrón, co-ordinator of the aluminium privatisation at the Corporación Venezolana de Guayana (CVG), the state industrial holding company.

This month Alberto Poletto, president of FIV, the *government privatisation* agency, said he expected the value of the aluminium complex to be more than than the $2.3bn of the CVG's steel company Sidor, which was sold last December. The aluminium companies had a "higher cash flow" than Sidor, he said.

Five consortia have qualified to bid, including Norway's Norsk Hydro and Reynolds Metal of the US; Alcan of Canada and Alcoa of the US; Ormet of the US and Venezuela's Alentuy; Kaiser of the US and Korea's Daewoo; Billiton, the UK group, and Venezuela's Sural. Congress is expected to approve the sales contract next week.

Mr Negrón said the CVG would sell the companies with no outstanding labour obligations. "We will pay all existing severance pay and other labour obligations up through the date of sale." The owners would have to assume generous worker benefits, however, including vacation, and recreation plans. It is still unclear how the government will restructure the $1.3bn in debt.

With annual capacity of 800,000 tonnes, the CVG's aluminium complex is the world's sixth largest and has drawn interest from the world's leading aluminium producers. The aluminium conglomerate combines the Alcasa and Venalum smelters, carbon anode producer Carbonorca and the bauxite producer Bauxilum.

Tele Danmark chief resigns

By Hilary Barnes in Copenhagen

Hans Wurzen, chief *executive of Tele Danmark*, yesterday resigned as shareholders voted in favour of the sale of a controlling interest in the Danish telecommunications group to Ameritech of the US.

Mr Wurzen, originally a career civil servant, said he had accepted an offer to become a judge in the Danish district court. "The timing is right. If I am to make a change, it has to be made now," he said.

Hans Munk Jensen, a member of the board of executive directors, was appointed acting chief executive from February 1.

Ameritech agreed to pay DKr21.2bn ($3bn) for a 34 per cent holding in Tele Danmark. As the Danish group agreed at the same time to redeem the remaining 17 per cent of the shares from the state for DKr10bn, Ameritech gained control of 42 per cent of the capital.

At yesterday's extraordinary meeting, six Ameritech nominees were elected to the 12-strong supervisory board.

Ameritech's acquisition completes the privatisation of Tele Danmark, which was initiated in 1994. But its investment was criticised by Danish institutional shareholders, who argued that Ameritech should have made an offer to all shareholders on the same terms as its offer to the state.

The Chicago company agreed to pay DKr470 a share, about 30 per cent over the market price at the time of the deal. But since the deal was announced on October 27, Tele Danmark's shares have performed strongly. Yesterday, they were trading at DKr461.

US retailers optimistic despite Asian crisis

By Richard Tomkins in New York

The National Retail *Federation, a body representing* US retailers, yesterday predicted that Americans would sharply increase their spending in stores this year in spite of the risk of repercussions from Asia's economic crisis.

The Federation said it expected retail spending on general merchandise, clothing, furniture and home furnishings to rise by 4.7 per cent, representing only a *slight slowdown from last* year's 5.3 per cent – the highest level since 1994.

At the opening of the federation's annual convention in New York, Rosalind Wells, NRF chief economist, said *Asia's troubles* would slow economic growth in the US.

"But the factors that matter most to consumers – availability of jobs, rising income, low inflation and low interest rates – will remain positive this year," *Ms Wells said. "This should* keep consumer confidence high and propel spending forward."

Ms Wells said one effect of the Asian crisis would be that goods imported from Asia-Pacific, including clothing and accessories, household products and home electronics, would be particularly good buys this year.

Some of the retailing trends seen last year were *likely to continue. Casual* clothing would be the "style of choice", both for weekend wear and at the office, and luxury goods should continue to appeal to the growing affluent segment of the population.

At the same time, consumers would remain very value-conscious, a trend that would benefit not only the discount stores but also department stores and other chains that succeeded in giving their customers *good quality at the right* price.

Ms Wells predicted that home furnishings and home improvement materials would have a strong year because low interest rates – and hence low mortgage rates – were stimulating housing activity.

While traditional forms of shopping would continue to predominate, Ms Wells noted that increasing numbers of *retailers were setting up* internet sites for online shopping.

Online sales, she said, were estimated at about $2.4bn *last year* – still very small compared to the $53bn of sales recorded by the catalogue industry – and would be dominated by books, compact discs, flowers and airline tickets.

Clarín faces Argentine media war

Market leader is being challenged by new group

A fierce battle has begun for domination of the Argentine media. Clarín, for years the market leader, has come under attack from a powerful new partnership forged between Spain's Telefónica Internacional and Citicorp Equity Investment (CEI), the *Argentine private equity* arm of Citibank of the US.

The two groups were originally in business together as joint owners in Multicanal, Argentina's largest cable operator. They have parted company since CEI struck out on its own in October to buy 66.5 per cent of the country's third largest cable operator, Cablevisión, for $760m.

CEI sold half its share in Cablevisión to Telefónica, its new strategic partner. The two are already partners in Cointel, which owns 60 per *cent of Telefónica Argentina*, the largest telephone operator in Argentina with a monopoly over the southern half of the country. CEI and Telefónica also own 30 per cent of Multicanal, but are soon expected to pull out.

"We started as brothers and became too big to share the same bed, so we decided to sleep separately," says Ramiro Costas, communications manager for Grupo Clarín.

More to the point, say those at Clarín, CEI wanted to buy the profitable Argentine conglomerate, which *registered sales of $1.6bn in* 1997. Rejected by Clarín's close-knit family owners, CEI and its partners, which also include Tele-Communications International of the US, have moved on to invest $1.5bn in recent months.

Through Cablevisión they have secured a $1.1bn syndicated loan and have built up a cable empire almost equal to that of Clarín in a country boasting the third highest cable penetration in the world after the US and Canada. In some parts of Argentina, said Carlos Giménez *Vetere, Multicanal marketing* manager, cable outranks electricity and water services in terms of household penetration.

Under the terms of CEI's withdrawal from Multicanal, the two groups, along with a third cable operator in the interior of the country, Supercanal Holding, have come to a gentleman's agreement to carve up each new cable property acquisition in two or three ways. By dividing the country geographically, the three are preparing themselves for the deregulation of the telecom*munications sector expected* between now and 2000.

CEI and Telefónica, already covering southern Argentina, are seeking to pick up cable operations in the north to offer nationwide coverage. In this way they will be able to benefit from synergies in the cable and telecommunications industries, offering telephone, cable, internet, data transmission and television services.

"They will be able to offer one-stop shopping," said José Linares, of Société Gén*érale in New York*. "Argentina is setting the pace in the sector and other countries will soon follow."

Similarly, Supercanal Holding, whose majority shareholders include the Vila family with a 53 per cent stake and Clarín's Multicanal with 33 per cent, is looking to bid for Personal Communications System mobile phone licences in the Argentine interior once the market is deregulated.

"Right now there is great opportunity for those interested in the media business that has rarely occurred *before and in very few* countries," says Daniel Vila, Supercanal president, who negotiated a $500m syndicated loan in November to finance an expansion in which the company has grown from 50,000 cable subscribers in March 1996 to almost 500,000.

But while Clarín counts Vila's Supercanal as on its side in the battle with CEI, that is not so, says Vila. He has refused bids by both groups to be bought out. Vila plans to invest $300m-$500m in acquiring new newspapers and media to add to already significant newspaper, radio and TV holdings.

CEI and Telefónica have also set about expanding their growing distribution empire. The group has so far added 33.34 per cent of Torneos y Competencias, Argentina's leading sports programmer and owner of monopoly soccer television rights in the country.

With TyC, they are negotiating a 40 per cent stake in Editorial Atlantida, a magazine publisher and owner of the most widely watched TV channel. In December the group, representing Telefónica, TCI, TyC and CEI, announced the creation of a multimedia holding to put all its material under one roof.

"CEI has done a *fantastic* job. They've been very fast, very aggressive and very focused," says Mr Linares. "They have bought key assets and they're not settling for second best."

Clarín boasts the largest Spanish-language newspaper in the world, a growing stable of provincial titles and the leading radio stations and TV channels in the country. But the fight to preserve its dominance will be much harder than it seemed only a year ago.

Andrea Mandel-Campbell

This is the third in a series on Latin American media markets. The others ran on January 3 and December 19.

AMERICAS NEWS DIGEST

Searle links up with Yamanouchi

Searle, the pharmaceuticals arm of the St Louis-based Monsanto group, is setting up an alliance with Yamanouchi, Japan's third largest drug company, which will see the latter market new Searle drugs in Japan.

Two years ago, the two companies struck an agreement to co-develop celecoxib, Searle's new anti-inflammatory agent in Japan. The product is in "phase II" clinical testing there. The new agreement, however, extends the partnership into "a broad alliance covering our next wave of new products", according to Richard Schutter, Searle chief executive. MOre than 10 lead compounds are already covered by the new agreement, including anti-inflamma*tory agents and anti-cancer drugs.* *Nikki Tait in Chicago*

■ ADVERTISING

Leap wins Rockwell account

Leap Partnership has been named agency of record for Rockwell Semiconductor Systems and will handle advertising for Rockwell's personal communications, wireless communications, network access, personal imaging and digital infotainment divisions. The value of the contract was not disclosed.

Leap will manage the Rockwell account from its Santa Monica office, moving staff from Chicago. Rockwell Semiconductor Systems is a division of Rockwell International, based in Costa Mesa, California. It is a global electronics company providing equipment and services for industrial automation, semiconductor systems, avionics and communications. Leap Partnership is a subsidiary of Leap Group, *an advertising agency.* *Reuters, Chicago*

■ GLOBAL MARINE

Earnings to break $2

Global Marine, the offshore driller, said it was comfortable with analysts' forecasts that it would report earnings per share in excess of $2 in 1998. John Ryan, president, told a press conference that most of the company's rigs were contracted through 1998. "We are confident with $2 [per share] or more," he said. All of the company's rigs in the UK North Sea were under contract and all but two in West Africa were committed, he added.

Last week, Global reported earnings per share of $1.58 for 1997 and broker Dain Bosworth raised its 1998 forecast to $2.03 and its 1999 forecast to $2.58. *Reuters, New York*

■ CHINA

FedEx in Shenzhen Airport deal

Federal Express, the US deliveries group, has signed a letter of intent with Shenzhen Airport to provide a direct express service at Shenzhen's Huangtian airport in southern China.

FedEx expects to begin the all-cargo express service by the end of the year and that it will include 24-hour cus*toms clearance processing on-site, pre-arrival clearance* for import shipments and customs automation with the introduction of Electronic Data Interchange (EDI).

FedEx said Huangtian airport was currently the fourth busiest in China, and with 80 per cent of Hong Kong's air cargo traffic originating in southern China, it was an important gateway airport with significant potential. *Reuters, Hong Kong*

UK operator silences Deutsche Telekom

By Alan Cane in London and Ralph Atkins in Bonn

Deutsche Telekom, Europe's largest telecommunications operator, has been forced to redraft national advertising after complaints from a small UK operator.

First Telecom, a London-based provider of low-cost international telephone calls, was yesterday granted a temporary injunction in a Dusseldorf court prohibiting the German operator from making what First Telecom claimed were misleading statements in advertising for international calls.

Violation of the injunction would cost Deutsche Telekom DM500,000 ($270,000) and Ron Sommer, chairman, who is named in the complaint, would face six months jail. A public hearing will be held on January 30 in Dusseldorf.

The advertisements, under the banner heading "Fair Play" suggest that the quality of service from operators other than Deutsche Telekom could be suspect. Bernhard Pussel, managing director of First Telekom's German subsidiary, said the advertisement was misleading and would make customers uneasy about switching to other companies.

Stephan Heidmann, First Telecom's lawyer, of Freihalter, Kruger & Partner, said: "It is not permissible to invoke the advantages of the legally-awarded telephone monopoly and so to imply that Telekom's competitors have disadvantages in terms of quality."

The injunction is the latest in an avalanche of lawsuits from Deutsche Telekom and its rivals prompted by the opening this month of Europe's telecoms markets to full competition. Many are complaints about price comparisons.

The injunction stops Deutsche Telekom using the phrases (translated into English): "Does the quality decrease as VDI-News [VDI is an association of German engineers] suggested may be possible? Not if you stay as a customer of Deutsche Telekom"; and "Initial experience has proven that if different carriers are involved in completing a call, you cannot, in all cases expect the same quality."

Deutsche Telekom yesterday played down the ruling, saying it concerned only one of several points mentioned in the advertisement which, in any case, was no longer running.

First Telecom has operations in the UK, France and Germany and plans further European expansion. It will have turnover of about £70m ($114m) this year. Morgan Stanley Capital Partners is a big investor.

Three German banks to merge

By Andrew Fisher in Frankfurt

The restructuring of Germany's banking sector moved further forward yesterday with the announcement of a three-way merger to create the second largest publicly owned bank in the country.

The merger of public-sector banks in south-west Germany to create Landesbank Baden-Württemberg comes at a time of increasing consolidation in financial services and intense merger speculation.

With total assets of some DM430bn ($235bn), the new bank - to be formed next year - will be Germany's sixth largest. In the public sector, it will rank just behind Westdeutsche Landesbank in asset terms. Based on 1996 profits after risk provisions of DM1.67bn, the new bank will be in fourth place.

The banks being merged are: Südwestdeutsche Landesbank (Südwest LB), Landeskreditbank Baden-Württemberg (L-Bank) and Landesgirokasse. They employ around 9,000 people.

Erwin Teufel, prime minister of the state of Baden-Württemberg, said that the merger would both strengthen the region's influence on financial markets and enhance the competitiveness of the three banks and the associated savings banks.

The new bank will have its headquarters in Stuttgart, where leading German companies such as Daimler-Benz, Robert Bosch and Porsche are based.

Landesbank Baden-Württemberg will be the first German public-sector bank to combine with a Landesbank - carrying out wholesale financial services for the state government and the regional savings bank movement - with retail savings bank operations.

It will be owned by the state, the city of Stuttgart and savings bank associations.

Stuart Graham, European banking analyst at J. P. Morgan, the US investment bank, said the merger was "indicative of the determination of public sector banks to adapt to change and defend their market position".

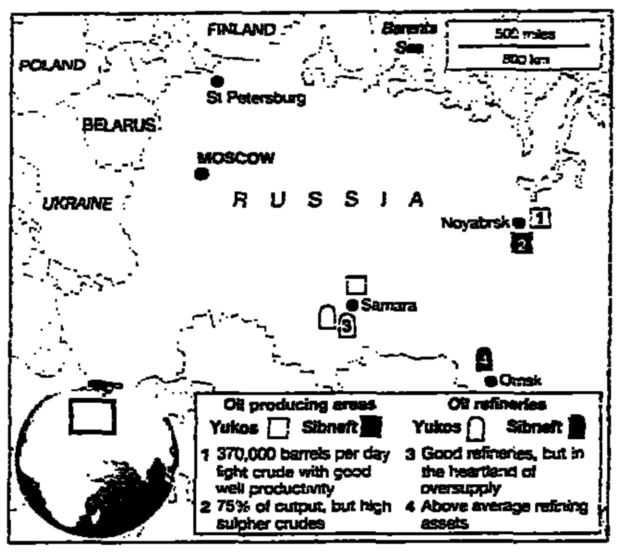
In Russia, big can still seem best

Merger of Yukos and Sibneft creates the world's third largest oil producer

In the Soviet era, Russia's communist central planners were obsessed with size. They sought to build the world's biggest steel mills, its longest railroads, and its most powerful missiles.

Yesterday's announcement of a planned merger between the oil companies Yukos and Sibneft suggests that the spirit of gargantuanism remains alive and well in the hearts of Russia's new capitalist masters. The combined company, to be called Yuksi, will be Russia's undisputed giant and the third largest private oil producer in the world.

Boris Berezovsky: role in Yuksi has been clarified



The warm support that Victor Chernomyrdin, the Russian prime minister, demonstrated yesterday for the deal suggests that the Russian government, too, approves of the trend towards consolidation in the country's richest sector.

According to Mikhail Khodorkovsky, president of Yuksi, the prime minister's decision to preside over yesterday's signing ceremony signalled his support.

"He [Mr Chernomyrdin] has an ideology - which he has long stated - that in the Russian oil sector there should be only a few big players. Maybe three, maybe five, the exact figure is up to God," said Mr Khodorkovsky, who joins the group as chairman of Yukos.

Analysts, however, warn that the merger could spell new trouble for minority shareholders, given Yukos's patchy record of respecting their rights when consolidating subsidiaries.

In an interview, Mr Khodorkovsky said the merger would make the new oil company stronger by helping to insulate it from the political storms which periodically still rage through Russia. But some observers detected another possible political dimension to the deal, in that it might also reduce the political influence of Lukoil, one of the most powerful Russian companies to date.

"It [the merger] will have a positive influence," Mr Khodorkovsky said. "As a structure the new company will be less vulnerable to political risk. With one large exception - 1917 - in Russia traditionally the government does not touch large companies." But large companies can influence the government. As producer of roughly 22 per cent of Russia's oil, Yuksi yesterday was flexing its muscle with a plea for lower taxes.

Mr Khodorkovsky said the merger made sense geographically, giving the new company control over the western Siberian products market as well as a beachhead into Russia's far east.

Yuksi's Western advisers argued that the consolidated company would be more attractive to foreign investors and lenders. "By combining the two businesses into Russia's largest oil company and the world's largest oil company by reserves, Yukos and Sibneft have clearly improved the financability of the combined entity," said Jim Dannis, managing director of Salomon Brothers in Russia.

Mr Khodorkovsky said the new Russian oil behemoth would continue its search for strategic western partners. He said he had already identified several potential allies and hoped to cement the relationships soon.

However, he said the merged company was too big to form a single strategic partnership. Instead, it would be seeking several partners to co-operate on specific deals. But western investors may feel otherwise. Most single-deal partnerships in Russia have so far failed to deliver the desired results.

Sceptics also say that Yuksi's desire for single deal link-ups may disguise a reluctance to embrace the radical change that would be probably be demanded in an exclusive relationship with a western partner. "Neither Yukos nor Sibneft have been at the forefront of restructuring and improving corporate governance," says Stephen O'Sullivan, head of research at brokers MC-Securities. "If Yuksi wants to compete with Lukoil it must concentrate on the issues of transparency, profitability and restructuring."

The uncertainties surrounding the role in the company of Boris Berezovsky, one of Russia's more controversial businessmen and a former government security official, were clarified yesterday. Yuksi's advisers at first denied that he was a shareholder in Sibneft, but Yukos yesterday confirmed that he was an investor in Sibneft, but he is not expected to have a direct role in the combined group.

Although Yuksi's advisers promise to set new standards in the treatment of minority shareholders, but Mr O'Sullivan warned: "Given a previous track-record in corporate governance of Yukos, minority shareholders might be justified in being concerned about the creation of a new super-holding company, such as Yuksi. Minority shareholders in Sibneft's and Yukos's subsidiaries now have two chances to lose out."

Chrystia Freeland, Arkady Ostrovsky, Robert Corzine

MAN scotches disposal rumours

By Frederick Studemann and Peter Marsh in Munich

MAN of Germany, one of Europe's biggest engineering companies, has brushed aside speculation that it is about to sell its truck and printing machine operations. However, it said some smaller parts of the company might be for sale as part of a programme to focus on core activities.

Rudolf Rupprecht, chairman, also played down the impact on MAN of the Asian economic downturn. In an interview with the Financial Times, he said the problems in Asia "can be overcome", and would have a direct impact on activities representing only about 7 per cent of MAN's turnover, which this year is expected to be about DM23bn ($12.3bn).

"Despite the south-east Asian crisis, demand for MAN products and services is climbing worldwide," he said.

Munich-based MAN is Europe's third biggest maker of trucks, which account for roughly a third of its sales. It is one of the world's two biggest makers of newspaper printing presses and the biggest supplier internationally of large marine engines.

In the six months to December 31, sales across the company rose 16 per cent to DM10.2bn, and orders rose 7 per cent to DM11.7bn. The truck division saw a 10 per cent increase in sales and an 18 per cent rise in orders, while printing press sales and orders climbed even faster - at 27 per cent and 73 per cent respectively.

Reacting to reports that Germany's Volkswagen was interested in acquiring its truck activities, Mr Rupprecht said trucks were "an integrated part of our company". He said MAN was also keen to keep its Roland print machinery operations, which it is hoping next year will return to profit after five years of losses.

In the past year, MAN has discussed with Heidelberger Druckmaschinen, a German rival and the world's biggest maker of printing machines, the possibility of a sale of all or part of Roland. However, "we [MAN] came to the conclusion this would not make sense", Mr Rupprecht said.

However, he conceded that as part of a strategy of increased focus on core operations, there might be scope for some disposals of smaller businesses. "If it makes sense and offers good compensation - why not?"

While Mr Rupprecht provided few clues as to which businesses might be for sale, it appears he might be willing to discuss bids for parts of the company in fields such as civil engineering and specialised machinery.

The crisis in Asia offered prospects for MAN, particularly in its marine engine activities, Mr Rupprecht said. An export drive by Korean shipbuilders, helped by the country's declining currency, would in particular benefit the German group.

Ranque to be named as chief at Thomson

By David Owen in Paris

Denis Ranque will today be confirmed as the new president of Thomson-CSF, the French defence electronics group. The position will give him a vital role in the restructuring of the European defence industry.

Mr Ranque, who succeeds Marcel Roulet this week, is a Thomson insider, having joined the group from the ministry of industry in 1983. Since 1997 he has been head of Thomson Marconi Sonar, the group's sonar joint venture with GEC-Marconi of the UK.

His most urgent task will be to oversee the creation of a French national defence group centred on Thomson-CSF and including the military communications and space activities of Alcatel Alsthom, the electronics business of Dassault, and the satellites of Aerospatiale.

This is seen as a precursor to alliances with other European defence companies to create an entity capable of taking on the new US behemoths.

Mr Ranque's personal connection with GEC is being seen as a sign that General Electric Company may be among the first partners. Mr Ranque is highly regarded by the UK company, which is likely to welcome his appointment.

The appointment of an existing Thomson executive is also seen as an indication that the government does not want Alcatel, whose main business is telecoms, to wield too much power in the new grouping.

Finally, the decision to skip a management generation is viewed as a sign that the government wanted to make a break from the false starts that have hampered French restructuring efforts in recent years.

Mr Ranque's appointment comes as the confirmation of Noël Forgeard to succeed Jean Pierson as managing director of Airbus Industrie, the European aircraft consortium, is being held up by discussions over terms and conditions.

Argentaria to lift liquidity with stock split

By Tom Burns in Madrid

Argentaria, the Spanish bank which is to be fully privatised next month in a global offering worth some Pta325bn ($2.1bn), said yesterday that it would implement a stock split to improve the liquidity of the shares after the disposal has been completed. The move is designed to encourage domestic savers.

The banking group also announced new corporate governance rules for the boardroom.

These are aimed at giving independent directors, representing small shareholders, a majority on the board and control over its auditing and executive remuneration committees. Some 60 per cent of the offering is due to be reserved for retail investors. These investors will be awarded a 3 per cent discount on the issue price as well as a bonus if they maintain their shares for a 12-month period.

Retail applications for the final 29.2 per cent of state-owned equity in Argentaria - the last Spanish government holding in a commercial bank - begin next Monday.

The offer structure reflects the centre-right government's bid to spread the share distribution as widely as possible.

Argentaria's stock split, which will reduce the nominal value of the shares from Pta250 to Pta125, is in line with similar moves by the main Spanish clearing banks last year.

The appointment of outside directors to the group's board to protect the interests of minority shareholders follows a trend instituted by Telefónica, the telecoms operator, when it was privatised a year ago.

Mutual Series warns over French investments

By Jane Martinson, Investment Correspondent

Mutual Series, the fund management group which has taken an active role in corporate restructurings, has warned companies in France it wants to see more emphasis on shareholder value.

The group - run by Michael Price - has invested $1bn in French equities over the past two years out of a total of $6bn now invested in Europe. During that time it has been concerned by French ownership structures and a lack of transparency.

Mr Price is one of the best known value investors in the US. In 1995 his activism helped push Chase Manhattan to merge with Chemical Bank of the US.

Rob Friedman, senior vice-president of the Mutual Series team who has been based in London for the past two years, said: "There are a number of situations in France which look ugly and if we see that continuing we will think about our options." He said those options included selling the shares or "getting loud". "There are some situations where we are going to get loud," he said.

Mr Friedman will this week move back to the group's headquarters in New Jersey. He will not be replaced, as the group decided to continue its "boutique-like" approach based on teamwork, he said.

The group, which was taken over by Franklin Resources 18 months ago in a deal worth a minimum of $610m, now manages $28bn in six mutual funds.

Mr Friedman said the group had been pleased with some of its investments in France, particularly Elf Aquitaine and Suez, the holding company which merged last year with Lyonnaise des Eaux.

However, it raised concerns about the sale a year ago of a company owned by Eurafrance, which is owned by Lazard Frères, the investment bank. Mutual Series joined other US investors to complain about the price the business was sold for.

The company now has about $50m invested in Gaz et Eau and Eurafrance, both owned by Lazard.

EUROPEAN NEWS DIGEST

Pipes alliance under scrutiny

The European Commission yesterday announced an in-depth investigation into a proposed joint venture between Weinerberger of Austria and Germany's Cremer & Breuer, which both make clay sewerage pipes. It may be several months before a final decision on the venture is made. The Commission is likely to seek concessions from the two companies and could even block the merger.

The Commission said the companies' combined share of the German clay pipe market would be far greater than 50 per cent, and the joint venture could have a dominant position. Clay pipes are generally used for big sewerage pipes because they are pressure-resistant and withstand certain chemicals. The Commission also said it was unclear how the venture would interact with a German cartel in which Cremer & Breuer is the dominant partner.

The Commission also announced yesterday it had approved the purchase by Mannesmann, the German industrial conglomerate, of a stake in Infostrada, the telecommunications operation of Olivetti of Italy. Infostrada was previously jointly controlled by Olivetti and Bell Atlantic of the US. It will now be jointly controlled by Olivetti and Mannesmann.

The Commission said the acquisition had to be looked at against the backdrop of Italian telecoms liberalisation. Infostrada currently provides advanced voice, data and video services. But the Commission said the company was also a potential competitor for former state monopoly Telecom Italia across the full range of telephony services.

Daniel Dombey, Brussels

■ RETAILING

Board shake-up at Metro

Metro, Germany's biggest retailer, yesterday announced a reorganisation of its management board with the departure from the company of Wolfgang Urban, one of the group's two joint chief executives. Klaus Wiegandt will be appointed to take over as the sole chief executive from the end of this month. Metro said that Mr Urban, who until last autumn was responsible for finance and controlling, was departing on friendly terms. "The supervisory board of Metro AG expressly thanks Mr Urban for many highly successful years at the company," Metro said. It denied reports that Mr Urban's departure was due to differences over the group's strategy.

Metro was formed last year through the merger of the cash-and-carry, department store and supermarket interests of the Metro, Kaufhof and Asko groups. Last month the retailer, which has been hit by the weak German economy, completed the takeover of the European cash and carry business of Dutch group Makro, in a DM4.8bn ($2.63bn) deal which significantly strengthens its position across Europe.

Graham Bowley, Frankfurt

■ CAR COMPONENTS

Sachsenring sales up 62%

Sachsenring, the east German car components manufacturer which floated on the stock market last year, yesterday announced a 62 per cent increase in sales in 1997 to DM275m ($150.5m). No profits figures were given.

Last year Sachsenring, which was bought in 1994 by two brothers from western Germany, acquired Trasco, a Bremen-based company specialising in customising cars. Since privatisation, Sachsenring has become one of east Germany's few corporate success stories.

Frederick Stüdemann, Berlin

■ SBC/UBS MERGER

Further appointments imminent

With three weeks to go before shareholders vote on their merger, Swiss Bank Corporation and Union Bank of Switzerland were planning to announce last night another 80 to 100 senior appointments in their combined investment banking business, Warburg Dillon Reed. The banks' tier-by-tier job announcements, working down from the top, are expected to be completed by mid-February.

Although staff were warned not to infer that names not on the list would be made redundant, up to 6,000 employees, most of them from UBS, are expected to lose their jobs. More than half the investment banking job cuts will come in London.

Clay Harris, Banking Correspondent

■ GERMANY

Football clubs to seek listing

Two of Germany's biggest football clubs, Bayern Munich and Borussia Dortmund, yesterday confirmed plans to seek a stock exchange listing if the country's football authorities drop their ban on clubs becoming quoted companies later this year.

Bayern Munich is so confident the German football federation will decide in October to allow club flotations that it has already set aside a date - July 1 1999 - for its stock market debut. The Bavarian club wants to raise money to build its own stadium - it is currently a tenant in Munich's Olympic stadium - while Dortmund, the current European champions, says it must go public if it is to remain competitive in Europe.

News of the two German clubs' determination to float came after shareholders in the company that owns the Italian football club Lazio voted at the weekend to approve plans to list the business on the Milan bourse.

Patrick Harverson

■ SWITZERLAND

BZ Bank net income surges

BZ Bank, the stockbroking operation of Swiss financier Martin Ebner, more than doubled its net income to SFr223m ($149.3m) in 1997. It boosted its return on equity from 42 per cent to 76 per cent and nearly halved its tax bill to SFr23m. The bank, which moved out of Zurich last year to cut its tax bill, has benefited from the strong performance of the Swiss stock market, which rose more than 50 per cent last year.

It is recommending an additional dividend of SFr80m and will add SFr145m of retained earnings to its reserves. The group's equity at the end of 1997 totalled SFr330m and its balance sheet totalled SFr905m. Securities held in custody rose to SFr50bn from SFr31bn in 1997.

William Hall, Zurich

■ DEN DANSKE BANK

Shares shrug off inquiry findings

Shares in Den Danske Bank yesterday remained unaffected by criticism of its role in the 1993 disposal of a Faroese bank to the government of the north Atlantic islands in the report of a commission of inquiry, published on Friday. The bank's shares yesterday rose DKr22 to DKr945 on the Copenhagen Stock Exchange, against a 1.55 point rise to 220.71 in the KFX index of most-traded shares. According to the commission, Faroese government representatives were misled by DDB when it said in March 1993 that Faeroya Bank was not in need of new capital. DDB defended its record, saying the statement was correct when it was made, even if the bank was found to need new capital a few weeks later. However, Danske offered to compensate Faeroya Bank if it could be shown that there was a relatively greater loss on Faeroya's operations between January 1993 and December 31 1997, than at Sjovinnubankin, the government-controlled bank which took over Faeroya Bank in spring 1993.

Hilary Barnes, Copenhagen

COMPANIES AND FINANCE: UK

Barclays plans internal reorganisation

By George Graham and Joel Kibazo

Barclays, the UK banking group which has just completed the sale of its equity investment banking operations, is planning a sweeping internal reorganisation which will bring its retail financial services to the forefront.

Martin Taylor, chief executive, intends to regroup Barclays' businesses into four units: retail financial services; asset management; investment banking; and business banking.

The change is intended to split personal and business banking, which have different managerial requirements, risk profiles and cost structures.

At the same time, Mr Taylor wants to integrate Barclays' international businesses, such as its credit card operations in Germany and France, more closely with their counterparts in the UK. The expression "UK" will be banished from the titles of the four divisions.

The biggest grouping will be the new retail financial services division, which will include personal banking in the UK and Europe, private banking, the African and Caribbean banks, mutual funds and BarclayTrust. Small business banking in the UK will also be included, because it shares the same branch network as the personal banking division.

This unit will be headed by John Varley, currently chairman of Barclays' asset management group. He will be backed by Richard Reay-Smith, who runs UK personal banking, and Carlos Martinez de Campos, who heads the international and private banking division.

By accentuating the retail financial services division, Barclays also hopes to obtain a better stockmarket rating, since investors currently value the stable earnings that can be obtained from this sector more highly than the more volatile earnings from corporate banking.

Banking for larger UK businesses will be split from the current UK banking services division to form a new corporate banking group, with cross-border payments services and Barclays' Middle East and Latin American operations. It will be headed by Chris Lendrum.

The two remaining divisions will be Barclays Capital, the investment bank left after the sale of BZW's equities and advisory businesses, run by Bob Diamond, and Barclays Global Investors, the institutional asset management unit run by Fred Grauer.

The restructuring, which Barclays is intending to announce in tandem with its annual results next month, follows closely on the reorganisation announced last week by Lloyds TSB.

A breath of fresh air is a tonic for BG

Demerger and new management are behind the turnround at the former British Gas, Robert Corzine writes

Outside David Varney's window at BG's headquarters in an office park outside Reading, is a placid pond surrounded by a nature reserve.

The view from the chief executive's suite must be reassuring for a company that has long sought calm waters after being battered by the successive waves of rapid structural change in the UK gas industry, regulatory uncertainty, and public wrath for falling standards and big executive pay rises.

Mr Varney, a former Shell executive, missed some of the darkest days of the old integrated British Gas. But 1997 held more than a few unpleasant surprises for BG, which last February emerged as a hybrid energy conglomerate after the spin-off of Centrica, the domestic gas supply and trading business.

"Last February 17 [demerger day], our obituary was being written," recalls Mr Varney. With the shares at 179p, many analysts wondered whether a conglomerate combining a monopoly domestic pipeline operator and a potentially high risk international oil and gas exploration and production company would appeal to investors.

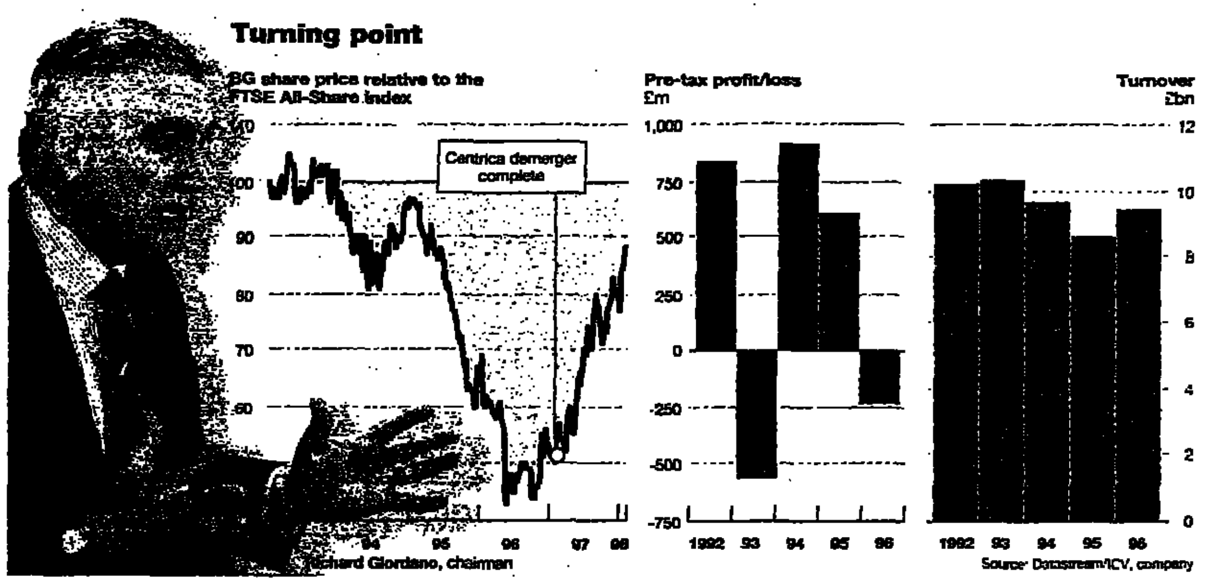
"Some said BG stood for 'big goner'," says Mr Varney. But the demerger marked a turning point in the tide of investor sentiment. Even when the Monopolies and Mergers Commission endorsed a tough pricing formula for Transco, BG's pipeline arm, the share price showed surprising resilience.

The fact that BG ended the year as best performer on the FTSE 100 is proof, say executives, that the demerger was the only way to end the agony of the former British Gas, whose market valuation halved between autumn 1993 and mid-1996.

Although some observers thought there was more than a hint of desperation surrounding the demerger strategy, Richard Giordano, BG's chairman, insists the commercial, industrial and political logic behind the split was compelling: "Investors can now see more clearly what is in the companies. . . and they are able to measure the problems."

BG's shares last year were at "a dangerous discount", said Mr Giordano. "But I don't believe that discount exists today." So what restored investors' faith in the company? Mr Giordano believes the creation of two management teams made up largely of people from outside the gas industry was a big factor behind the re-rating of both BG and Centrica. Eleven executive directors untainted by previous events have joined the two over the past 18 months.

Executives also put a brave face on the results of the MMC inquiry: "We got stability out of the MMC," says Mr Varney, who also hopes that the government's regulatory review will clarify the accountability of the regulator.



Richard Giordano, chairman

Although BG believes the MMC helped pave the way to the regulatory predictability that should further underpin its share price, recent history suggests it should be cautious about reaching such a conclusion.

Mr Varney says it is not possible to balance the MMC's desire to see Transco with a low cost of capital with regulatory uncertainty. And it is clear that Transco, which has borne the brunt of redundancies and structural change, "aches for stability".

But utility regulation in the UK is still evolving and may remain fluid even after the government finishes its review. Clare Spottiswoode, Ofgas director general, is unlikely to abandon her efforts to transform Transco even further and pare it back to its narrowest possible natural monopoly.

Ofgas has repeatedly questioned the cost base and range of activities of Transco and officials remain uneasy with the combination of a pipeline monopoly and an international exploration and production company. This is in spite of BG assurances that it will not use Transco revenues to fund its growing foreign businesses.

The increasing contribution of those businesses to BG's profits was another factor behind the share re-rating. A string of discoveries and the signing of two production sharing contracts in Kazakhstan suggested BG had finally hit its international stride.

One project in particular, the Karachaganak gas condensate field in Kazakhstan, is seen as vital to BG's fortunes, as it could account for a fifth of its oil and gas output by about 2005. "It has to work," says Mr Varney.

The second leg of the international growth strategy is downstream gas projects in countries with limited or no gas industries. Although many big oil companies are also competing to establish gas-fired power stations, BG's ambition is to go beyond power generation and build demand for gas among industrial and commercial customers. The strategy is unproven, so the performance of the recent purchase of Gujarat Gas in India will be crucial.

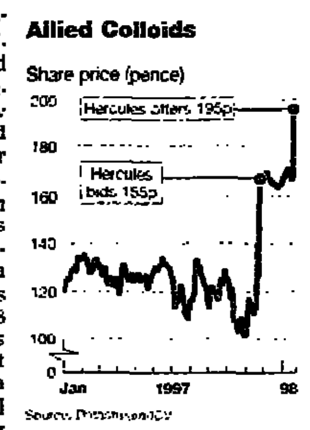
Mr Varney believes Gujarat Gas also showed that BG can hold its own in the face of intense competition: "We had to see off some pretty formidable competitors."

Last year's share buy-back was another factor which helped propel BG's share price. It is unlikely to be the last. Mr Giordano says BG is not about to "institutionalise" buy-backs, but "we're constantly looking at them."

LEX COMMENT

Alld Colloids

What a difference a week-end makes. On Friday, Hercules dismissed Allied Colloids' final defence document as "predictable". By tea-time yesterday it had raised its bid by 26 per cent to 195p after Ciba Speciality Chemicals moved in as a white knight. Does this auction mean the winner will overpay? Ciba's 182.5p offer – at 23 times Allied's forecast 1997-98 earnings per share – was at the top end of recent bids in the sector. Indeed a range of bidders, from ICI to Henkel, could be paying too much as volume growth slows in speciality chemicals and competition from Asia intensifies.



Hercules' latest £1.34bn ($2.18bn) offer weighs in at more than 24 times Allied's 1997-98 earnings and 16 times operating profits. But the tantalising aspect of Allied is the scope for improving its operating margins. If they can be pushed up from less than 17 per cent to 21 per cent (the US group's level), that is worth more than £20m at constant sales levels. If sales continue to grow at 9 per cent a year, operating profits could be nearly £40m higher by 1999-2000. These two big ifs might just about justify the extra £275m on the table.

The surprising thing about both Hercules and Ciba is that neither claims to have product overlaps with Allied, making synergies hard to spot. But both companies need a deal. Ciba, which has a strong balance sheet, is itching for something to buy. Hercules, however, has staked more of its reputation on this bid. The winner certainly risks overpaying.

Falkland Islands shares rise to 170p

Falkland Islands Holdings closed yesterday at 170p on its first day of trading after being spun-off from Anglo United, the heavily indebted fuels, chemicals and trading group.

Some 2.1m shares had been placed by Collins Stewart at 100p.

Anglo shareholders were offered one share in FIH for every 300 held, with the group's banks lifting their stake from 50 to 75 per cent.

FIH then purchased the Falkland Islands Group from Coalite, the smokeless fuels and chemicals business, for £8m ($13m). FIH controls about 80 per cent of the Falkland Islands' retail sales.

Ashtead will not seek expected US listing

By Robert Wright

Ashtead, the plant hire group, will not seek an expected US listing, it announced yesterday.

There had been indications that the group, which does about a third of its business in the US, might seek a listing there to take advantage of higher ratings for stocks. Ashtead is the ninth largest plant hire company in the US, although it has only 0.5 per cent of the highly-fragmented market.

Peter Lewis, chairman, said that a US listing would have been useful only if Ashtead were planning to use it to fund acquisitions – and, with prices for US companies currently high, such a purchase was unlikely.

Mr Lewis said: "At the end of September, we paid £39m ($63.6m) for Sheriff [a UK plant hire company]. If that were translated into the sort of value being attached to these companies in America, that would have been over £100m."

Ashtead also announced a more extensive series of depot openings than had been expected. The company has opened 18 new offices in 10 months in the US, to a total of 37. The company said the eastern US alone might eventually be able to support 150 offices. The higher-than-expected number of openings caused Mark Howson, an analyst at Beeson Gregory, to upgrade his pre-tax profits forecast for the year to April 1998 from £36.3m to £36.8m and from £47.7m to £51.5m for the following year.

The announcements came as Ashtead announced better than expected figures for the six months to October 31. Interim pre-tax profits rose to £18.4m (£14.4m) on turnover up to £94.8m (£74.4m). Operating margins rose to 21.5 per cent (20.2 per cent). A total of 17 offices were opened during the period, while the Sheriff purchase brought another 48.

Sunbelt, the US plant hire business, made operating profits of £6.1m (£5.5m) on turnover of £27.7m (£23.6m), despite the negative effect of the strong pound.

Reckitt & Colman to open its first Chinese factory

By John Willman, Consumer Industries Editor

Reckitt & Colman, the consumer products group, is to open its first factory in China in a drive to capture the country's fast-growing market for household cleaners and insecticides.

The new factory, at Guangzhou in southern China, will make Dettol antiseptic and Pif Paf insecticides which it already markets in other Asian markets.

Reckitt has secured endorsement for Dettol from the Chinese Medical Association, which is campaigning to improve home hygiene in the country.

It will be the only brand of antiseptic to be endorsed, in return for a programme of co-operation with the association on hygiene education, research and academic exchanges. This will also include organising hygiene days to improve public awareness.

The group already distributes air fresheners, insecticides and antiseptics in parts of China through Hong Kong and a Shanghai office. In Hong Kong, Dettol has 72 per cent of the market and is the third best-known brand in the territory.

Reckitt sells its products, which include Lysol disinfectant, Harpic lavatory cleaner and patent medicines such as Lemsip and Gaviscon, in more than 120 countries. Sales are divided almost equally between the US, Europe and the emerging markets of Asia, Africa and Latin America.

The group has less than 3 per cent of its sales in China, which it has identified as offering the greatest potential for its range of cleaners and other household products.

Vernon Sankey, chief executive, said: "There is strong demand by consumers, supported by the government, to control infection and disease through better home hygiene."

Diageo trading meets targets

By John Willman, Consumer Industries Editor

Diageo, the food and drink group, yesterday said trading for 1997 had been in line with expectations despite the economic turmoil in south-east Asia.

The group, formed in December by the merger of Guinness and Grand Metropolitan, derives 8 per cent of profits from the Asia-Pacific region through sales of spirit brands such as Johnnie Walker scotch whisky and Gordon's gin.

But a trading statement issued yesterday said profits in Asia-Pacific markets were expected to be similar to 1996 at constant exchange rates. Difficulties in Thailand and, later in the year, Korea had been balanced by improvements in other markets in the region.

United Distillers, the former Guinness spirits business, achieved 2 per cent price rises with volumes up 1 per cent. Guinness Brewing Worldwide raised volumes 2 per cent, reporting "a good year" even in the Asia Pacific region with volumes and profits up significantly in Malaysia and Indonesia. Pillsbury, the food side, increased market share in North America. Burger King's US sales were flat but growing elsewhere.

The group said that the strength of sterling and other exchange rate movements would reduce profits for 1997 by about £140m ($228m). In the first six months of 1998, the impact would be about £60m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adscene	6 mths to Nov 29	26.9	(28.8)	2.88	(2.78)	6.45	(6.1)	3.5	Apr 8	3.5	-	8.5
Ashtead	6 mths to Oct 31	94.8	(74.4)	17.2♠	(14.4)	9.16	(7.63)	0.83	Apr 6	0.72	-	3.65
Cardiff Property	Yr to Sept 30	2.92	(1.08)	0.474	(0.293)	13.7	(7.7)	2.1	Mar 13	1.95	3.1	2.85
Fairfield Eats	Yr to Sept 30	59.4	(83.5)	1.73♠	(2.1)	13.2	(16.2)	2.7	Apr 9	-	4.7	-
Matrix	Yr to Sept 30	2.14	(1.16)	0.167	(0.185)	5.8†	(8.7)	3	Mar 6	-	6	6.75
Mitie	6 mths to Sept 30	108.6	(91.3)	4.81	(3.25)	4.4	(3.2)	1.1	Mar 31	0.9	-	2

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abtrust Scotland	6 mths to Nov 30	64.47	(55.4)	0.757	(0.413)	1.13	(0.62)	-	-	-	-	0.95

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock.

INTERNATIONAL CAPITAL MARKETS

Republic of Turkey raises DM1bn

INTERNATIONAL BONDS

By Edward Luce and Samer Iskandar

The Republic of Turkey yesterday became the first emerging market borrower to tap the D-Mark sector since the Asian crisis went global last October. Its DM1bn offering was also the first emerging market sovereign bond to be launched in any currency this year.

Traders, however, described the reception to yesterday's bond as "underwhelming". At a spread of 284 basis points over the five-year Treuhand benchmark, the bond was priced at a relatively expensive level, said traders.

Turkey's most recent bond, a 10-year D-Mark offering issued on October 9, was launched at 275 basis points over the curve, but is now trading at a spread of more than 400 basis points in the secondary market.

However, an official at WestLB, sole lead manager, said it was priced within the range of existing Turkish issues once they had been swapped into D-Mark Libor. The official added that WestLB had sold around 20 per cent of its quota mostly to German retail investors.

WestLB said it would take a couple of weeks to sell the entire issue. "This is really a test of whether the market is ready for emerging market paper yet," said the official. "It is too early to tell." The bond widened to a spread of just over 290 basis points after launch.

The National Bank of Hungary is expected to issue a DM500m floating-rate bond today.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ D-MARKS							
Republic of Turkey	1bn	7.25	99.125R	Feb 2003	0.625R	+284(7¼%-03)	WestLB
■ YEN							
Abbey Natl Trsy Services(a)	20bn	5.80	99.98	Feb 2000	1.50	-	Nomura International
■ STERLING							
European Inv'ment Bank(b)	150	6.00	99.743	Nov 2004	0.30	+9(6¾%Nov04)	Merrill Lynch Intl
European Inv'ment Bank(c)	75	7.00	100.661	Dec 2000	0.1875	-	Barclays Capital Group
■ ITALIAN LIRE							
European Investment Bank	750bn	5.625(s)	98.30R	Feb 2028	0.29R	-18(swaps)	BCI/JP Morgan Securities
World Bank	500bn	5.375	99.52r	Feb 2013	0.40r	-	Credito Italiano/Paribas
■ SWISS FRANCS							
Oest Kontrollbank	500	3.50	103.20	Feb 2008	2.75	-	SBC Warburg Dillon Read
■ DANISH KRONER							
Nordic Investment Bank	750	5.50	102.248	Mar 2008	2.00	-	Generale Bank
■ SWEDISH KRONOR							
Nordic Investment Bank	500	5.50	101.50	Mar 2004	1.875	-	Unibank

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ‡ Floating-rate note. R: Fixed re-offer price; fees shown at re-offer level. a) Redeemed in £. Quarterly coupons. b) Fungible with £700m. Plus 66 days accrued. c) Fungible with £350m. Plus 55 days accrued. r) Recommended re-offer. s) Short 1st coupon.

ABBEY NATIONAL, the UK bank, took advantage of the weakness of the yen to issue its second yen-sterling dual-currency bond in two months. The two-year Y20bn issue will pay a monthly coupon of 5.8 per cent and will be redeemed in sterling. An Abbey National official said it had marketed itself to Japanese retail investors as the "Best of British".

A bullish government bond market favoured issuance in Italian lire. The WORLD BANK and the EUROPEAN INVESTMENT BANK both launched long-term fixed-rate deals. The sector has seen brisk activity in recent days, mainly restricted to bonds with structured coupons, which appeal to small investors. Yesterday's plain-vanilla issues attracted demand from institutions, according to syndicate managers.

The World Bank issue had a 15-year maturity. Paribas, one of the lead managers, said this gave the bonds rarity value. Most existing issues with long maturities were issued with higher coupons and are trading at a *substantial premium*.

Bankers also said a distortion in the BTP yield curve at the 15-year maturity made the World Bank deal look particularly attractive.

Italian BTPs, Spanish bonos outperform

GOVERNMENT BONDS

By Vincent Boland in London

Italian and Spanish bond markets grabbed the limelight yesterday, outperforming the bigger European markets as attention turned back to European monetary union. With the US Treasury market closed for the Martin Luther King holiday, there was little to provide wider direction, and trading was relatively light.

ITALIAN BTPs were the best performers on the back of positive sentiment emanating from the Ecofin meeting, which appeared to remove most of the lingering doubts about Italy's Emu credentials. Carlo Azeglio Ciampi, finance minister, said participants had approved "with satisfaction" the Commission's report on the country's Emu progress.

That was the signal for BTPs to sharply outperform. The March contract settled in London 0.43 higher at 117.28, while the spread over 10-year bunds fell from 35 basis points to 32 points before easing slightly later.

The BTP performance and Emu sentiment also boosted SPANISH BONOS, with the March future settling 0.39 higher at 107.60. The spread over 10-year bunds stood at 30 basis points.

Analysts said the Ecofin meeting was good for Italy but Emu entry was now fully discounted by the Italian and Spanish markets. Spread convergence at the 10-year end might have gone as far as possible, though there was still scope for tightening at the short end, particularly in BTPs.

"For Italy and Spain, things have pretty much gone as far as they can go at the 10-year end," said Richard Woodworth, manager of fixed income research at Merrill Lynch. "There should be a credit spread given the different debt structures [of Germany and Italy] and a risk premium if the Emu process doesn't unfold as we and most of the market expect."

With European interest rates headed higher in 1998, there was little scope for any further tightening of the 10-year spread, he said.

UK GILTS drifted in thin trading in spite of the release of data showing a higher than expected public sector borrowing requirement of £1.4bn for December, compared with forecasts of about half that level. The March gilt future fell $\frac{1}{32}$ to $123\frac{9}{32}$ with just 33,000 contracts exchanged. The 10-year gilt/bund spread stood at 111 basis points.

Gilt investors are looking to retail sales data due tomorrow and economic growth figures on Friday for further signs of where interest rates may be headed.

GERMAN BUNDS were marginally firmer but lacked conviction. The March future settled in London at 106.35, up 0.05, in a very narrow range of just 36 ticks. But the market remained well supported by liquidity and switching into longer-dated stocks.

"Most of the trades we have been seeing have been lengthening trades," said Heinz Gunasekera, bund specialist at UBS. "With the amount of liquidity available there is scope for bunds to trade higher."

Record bond issuance by Japanese companies

By Gillian Tett in Tokyo

Japanese companies issued a record number of bonds in December, as the country's recent financial crisis forced corporate groups to seek fresh financing outside their traditional banking partners.

Total straight corporate bond issuance was Y937bn, up from Y391bn in November, the Bond Underwriters Association of Japan said.

This was the highest figure ever, with the previous record of Y857bn set in February 1996, and association officials said it might be topped again this month. Their data shows Y872bn of straight bonds have already been issued this month.

The move partly reflects a longer-term trend, which has seen big Japanese companies turning away from their traditional banking partners to use capital markets for their funding in recent years.

This is expected to accelerate over the next few years, as the country's planned Big Bang deregulation creates a more competitive market in securities – and allows foreign companies greater access to underwriting business.

The onset of Big Bang has also left Japan's pattern of corporate keiretsu "families" unravelling slightly. These used to bind companies to banks through traditional patterns of loyalty.

However, December's surge is also believed to have been triggered by a more immediate "credit crunch", as banks sought to cut their lending to many groups in order to maintain their financial strength.

A recent Bank of Japan survey, for example, showed the number of Japanese companies reporting problems in raising bank finance surged in early December. This is thought to have happened because stock market trends threatened to reduce the value of banks' equity portfolios, and in turn undermine their capital bases.

Consequently, the banks have been forced to trim their assets, such as loans, in order to maintain their capital adequacy ratios.

On top of this, the recent slump in the stock market has made some companies reluctant to issue new equity because of fears that domestic demand would remain weak.

Cades plans to issue euro-tributary bond

By Samer Iskandar

Cades, the French state-backed entity responsible for repaying the accumulated debt of the social security system, yesterday announced plans to issue its first euro-tributary bond.

Euro-tributary securities are structured to remove uncertainties linked to next year's introduction of the European single currency.

"One of our main objectives is to diversify our investor base," said Benoit Jolivet, the Cades chairman. "A lot of foreign investors are looking for French sovereign risk, but there is little supply outside the Ecu and French franc sectors."

The equivalent of at least Ecu1bn of bonds will be issued in several tranches, including D-Marks and French francs. The securities will have identical structures (coupon and maturities) and will be merged into a single issue after redenomination in euros next year.

The issue, co-ordinated by CDC Marchés, will be the first large financing since the French government increased Cades' burden by FFr87bn at the beginning of the year, to cover deficits from 1996 and 1997.

Cades was set up in 1996 to manage FFr120bn of debt accumulated in the previous two years. A special tax, the RDS, was initiated to fund it. The amortisation schedule was originally due to expire in 2009 but was extended until 2014, in exchange for the FFr87bn increase in Cades' liability. Last year the RDS raised FFr25.2bn, half of which was used to service Cades's debt. The government levies FFr12bn every year from Cades.

Mr Jolivet said Cades planned to raise FFr50bn to FFr60bn this year, if market conditions allow. He added that Cades, which is rated triple-A by the main international credit rating agencies, would be very active during the next three years. Its debt management programme would include lengthening its maturity profile, in response to the extension of its repayment schedule.

Long-term bonds account for roughly 50 per cent of existing debt. The rest consists of syndicated loans and commercial paper programmes in the US, France and on the euromarket.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jan 19	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.6574	5.22	-0.01	+0.21	-0.26	-0.98
	10/07	10.000	130.3509	5.82	-	+0.26	-0.24	-1.57
Austria	09/99	7.000	104.4250	4.17	+0.03	+0.32	-0.19	+0.51
	07/07	5.625	103.2600	5.18	-	+0.02	-0.15	-0.58
Belgium	01/00	4.000	99.8100	4.05	-	-0.01	-0.25	-0.57
	03/07	6.250	107.6600	5.18	-	+0.04	-0.19	-0.62
Canada	03/99	4.750	93.6000	4.28	+0.07	+0.18	-0.34	+0.90
	06/07	7.250	113.6300	5.36	+0.04	+0.11	-0.29	-1.22
Denmark	12/99	6.000	103.0600	4.26	-0.02	+0.07	-0.22	+0.46
	11/07	7.000	111.9700	5.39	-	+0.05	-0.23	-0.99
Finland	01/99	11.000	106.7785	3.82	-	+0.10	-0.26	+0.28
	04/06	7.250	113.9980	5.12	-0.04	-0.01	-0.26	-0.88
France	01/00	4.000	99.9900	4.00	-	+0.02	-0.20	-0.68
	10/04	6.750	111.2300	4.76	-	+0.02	-0.20	-0.23
	10/07	5.500	103.1900	5.07	-0.01	-	-0.17	-0.51
	10/25	6.000	104.8100	5.65	-0.02	+0.03	-0.15	-0.94
Germany	09/99	4.000	100.2300	3.84	-0.01	-0.04	-0.20	+0.56
	11/04	7.500	115.2100	4.82	-	-	-0.25	-0.51
	07/07	6.000	106.7300	5.08	-	+0.02	-0.17	-0.63
	07/27	6.500	111.6200	5.68	+0.02	+0.05	-0.16	-0.94
Ireland	04/99	6.250	101.6800	4.75	-0.03	+0.08	-0.33	-1.08
	08/06	9.000	117.7000	5.36	-	+0.04	-0.18	-1.21
Italy	05/00	6.000	102.7200	4.74	-0.08	+0.05	-0.11	-1.40
	05/02	6.250	104.9000	4.97	-0.05	+0.07	-0.16	-1.44
	07/07	6.750	109.9600	5.39	-0.05	+0.06	-0.17	-1.90
	11/26	7.250	118.7600	5.89	-0.04	+0.08	-0.17	-1.85
Japan	03/00	6.400	112.3800	0.59	-	+0.04	-0.05	-0.13
	12/02	4.800	116.7900	1.25	-	+0.06	-0.02	-0.52
	09/05	3.000	109.0600	1.73	+0.02	+0.09	+0.02	-0.70
	09/17	3.000	106.8000	2.56	+0.02	+0.09	+0.02	-0.72
Netherlands	11/99	7.500	106.0400	3.97	-0.06	-0.07	-0.26	+0.46
	02/07	5.750	105.1000	5.03	-0.01	+0.01	-0.17	-0.61
New Zealand	02/00	6.500	98.4456	7.34	-	-0.21	-0.44	+0.31
	11/06	8.000	108.3965	6.70	+0.01	+0.04	-0.40	-0.67
Norway	01/99	9.000	104.6900	4.22	-0.01	-	-0.18	+0.48
	01/07	6.750	109.7900	5.35	+0.06	+0.09	-0.09	-0.57
Portugal	03/99	8.500	104.4801	4.46	-0.03	+0.02	-0.26	-0.94
	02/07	6.625	108.7560	5.38	-0.02	-	-0.21	-1.23
Spain	07/99	7.400	104.1640	4.46	-	-	-0.05	-0.83
	03/07	7.350	114.4264	5.32	-0.06	-0.01	-0.17	-1.31
Sweden	01/99	11.000	105.8788	4.82	-0.02	+0.02	-0.29	+0.55
	08/07	8.000	117.4350	5.59	-0.04	-	-0.36	-1.05
Switzerland	03/00	5.000	106.8800	1.68	-0.01	+0.08	-0.25	-0.25
	06/07	4.500	111.4500	3.08	+0.01	-0.01	-0.15	-0.88
UK	08/99	6.000	98.8516	6.79	+0.04	+0.32	+0.03	+0.33
	11/04	6.750	102.9688	6.21	-	+0.17	-0.15	-0.95
	12/07	7.250	108.5625	6.08	-	+0.12	-0.17	-1.31
	08/21	8.000	124.2500	6.05	+0.01	+0.11	-0.17	-1.53
US	10/99	5.625	100.3830	5.39	+0.01	+0.16	-0.28	-0.58
	11/04	7.875	113.1640	5.59	-	+0.17	-0.21	-0.78
	08/07	6.125	104.2970	5.54	+0.01	+0.16	-0.18	-1.00
	08/27	6.375	107.3670	5.85	-	+0.10	-0.11	-0.97
ECU	01/00	4.000	99.4200	4.31	-0.01	-	-0.31	+0.31
	04/07	5.500	102.1600	5.20	-	+0.03	-0.19	-0.81

London closing. *New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jan 19	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.82	+0.74	+0.29	New Zealand	6.70	[illegible]	+1.17
Austria	5.18	+0.10	-0.35	Norway	[illegible]	[illegible]	-0.18
Belgium	5.18	+0.10	-0.36	Portugal	[illegible]	[illegible]	-0.15
Canada	5.36	+0.28	-0.17	Spain	[illegible]	[illegible]	-0.21
Denmark	5.39	+0.31	-0.14	Sweden	[illegible]	[illegible]	+0.05
France	5.07	-0.01	-0.46	Switzerland	[illegible]	[illegible]	-2.45
Germany	5.08	-	-0.45	UK	[illegible]	[illegible]	+0.56
Ireland	5.36	+0.28	-0.17	US	[illegible]	[illegible]	-
Italy	5.39	+0.31	-0.14	ECU	[illegible]	[illegible]	-0.33
Japan	1.73	-3.35	-3.80				
Netherlands	5.03	-0.05	-0.50				

Source: Interactive Data/FT Information. *New York closing. London closing. Annualised yield basis.

EMERGING MARKET BONDS

Jan 19	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	94.2000	8.71	+0.09	-0.07	+3.33
Poland	07/04	7.125	BBB-	102.3978	6.66	+0.09	-0.90	+1.23
Russia	06/07	10.000	BB-	89.2818	11.92	+0.20	[illegible]	+6.42
■ LATIN AMERICA								
Argentina	06/27	9.750	BB	94.2500	10.37	+0.03	-0.44	+4.58
Brazil	05/27	10.125	BB-	91.7500	11.06	-0.15	-0.44	+5.29
Mexico	05/26	11.500	BB	118.0000	9.62	-0.04	-0.32	+3.64
■ ASIA								
China	07/06	7.750	BBB+	104.2612	7.05	-0.05	-0.35	+1.57
Philippines	10/16	8.750	BB+	84.3406	10.70	+0.08	+0.39	+5.06
Thailand	04/07	7.750	BBB-	82.3978	10.65	-0.18	+1.35	+5.35
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.7044	7.86	+0.02	-0.24	+2.51
South Africa	10/06	8.375	BB+	99.0056	8.53	+0.08	+0.28	+3.05
Turkey	09/07	10.000	B	101.1089	9.80	+0.05	-0.39	+4.30
■ BRADY BONDS								
Argentina	03/23	5.500	BB	73.7500	8.51	-	-0.36	+2.77
Brazil	04/14	4.500	BB-	76.3900	10.30	-0.05	-0.46	+4.69
Mexico	12/19	6.250	BB	80.8800	7.79	-	-0.25	+2.11
Venezuela	03/20	6.750	B+	88.0000	7.90	-0.30	-0.43	+2.21

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	102.70	102.86	-	102.94	102.64	38,960	140,018
Jun	102.00	102.16	-	102.00	102.00	2	2,591
Sep	101.76	101.92	-	101.76	101.76	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
97	5.86	5.86	5.17	-	-	0.10
98	4.86	4.86	4.25	-	0.01	0.20
99	3.86	3.88	3.40	-	0.05	0.37
100	2.87	2.93	2.62	0.01	0.08	0.49
101	1.88	2.04	1.94	0.02	0.19	0.79

Est. vol. total, Calls 9,085 Puts 13,557. Previous day's open int., Calls 93,053 Puts 148,102.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	106.25	106.35	+0.05	106.44	106.05	113053	263280
Jun	105.58	105.77	+0.04	105.86	105.58	406	4163

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Feb	Calls Mar	Calls Apr	Calls Jun	Puts Feb	Puts Mar	Puts Apr	Puts Jun
10600	0.48	0.87	0.82	1.18	0.13	0.52	1.05	1.39
10650	0.19	0.59	0.61	0.93	0.34	0.74	1.34	1.56
10700	0.05	0.38	0.44	0.73	0.70	1.03	1.67	1.96

Est. vol. total, Calls 8440 Puts 26789. Previous day's open int., Calls 228269 Puts 268261

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.15	105.18	-0.02	105.18	105.03	85,885	222,526
Jul	104.64	104.74	-0.13	104.64	104.64	260	920

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.10	105.15	-0.02	105.14	105.06	2293	32574
Jun	-	104.71	-0.02	-	-	-	-

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	116.65	117.28	+0.43	117.38	116.55	61416	123205
Jun	116.74	116.73	+0.43	116.74	116.72	650	16458

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11700	0.91	1.27	0.63	1.54
11750	0.64	1.03	0.86	1.80
11800	0.40	0.82	1.12	2.08

Est. vol. total, Calls 1320 Puts 2119. Previous day's open int., Calls 61656 Puts 70529

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	107.02	107.60	+0.39	107.68	107.00	73,288	98,497

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	123-04	123-09	-0-01	123-11	122-26	34238	186287
Jun	-	107-07	-0-01	-	-	0	1925

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Feb	Calls Mar	Calls Apr	Calls Jun	Puts Feb	Puts Mar	Puts Apr	Puts Jun
123	0-32	1-09	0	0	0-14	0-55	15-50	15-50
124	0-09	0-43	0	0	0-55	1-25	16-50	16-50
125	0-03	0-26	0	0	1-49	2-08	17-50	17-50

Est. vol. total, Calls 522 Puts 1960. Previous day's open int., Calls 72783 Puts 34932

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	102.04	102.00	-0.04	102.04	101.90	137	6,983

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	123-01	122-10	-0-23	123-04	122-06	315,970	689,265
Jun	122-16	122-00	-0-22	122-17	121-31	544	40,435
Sep	122-06	121-21	-0-22	122-06	121-21	8	8,641

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	129.71	-	-	129.72	129.62	1004	n/a
Jun	129.12	-	-	129.12	129.05	242	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Jan 16	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	105.1701	5.90	+0.09	-0.31	+0.50
NY Tel	08/25	7.00	A+	100.4223	6.96	+0.06	-0.16	+1.16
CWE	05/08	8.00	BBB	110.6107	6.56	+0.11	-0.22	+1.04
■ FINANCIALS								
GECC	05/07	8.75	AAA	118.7092	6.08	+0.06	-0.29	+0.56
Banc One	08/02	7.25	A+	105.2610	5.90	+0.06	-0.37	+0.50
US West	01/07	7.30	BBB+	105.0220	6.55	+0.07	-0.25	+1.03
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A-	100.1805	6.08	-0.05	-0.35	+1.07
Wal Mart	05/02	6.75	AA	103.5401	5.80	+0.06	-0.37	+0.40
Dayton Hud	06/21	9.70	BBB+	131.8514	6.92	+0.08	-0.17	+1.12
■ AGENCIES								
FHLMC	04/07	7.14	N/A	109.1705	5.83	+0.06	-0.29	+0.31
SLMA	03/00	7.50	N/A	103.9486	5.50	+0.05	-0.35	+0.17
FNMA	02/18	8.95	N/A	132.3094	6.12	+0.06	-0.27	+0.32
FFCB	06/06	8.95	N/A	120.3910	5.83	+0.06	-0.27	+0.31
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.0000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	104.7500	0.00	-	-	-
Pacalta	06/04	10.75	B-	98.5000	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Close		Treasury Bills and Bond Yields			
Prime rate	$8\frac{1}{2}$	One month	-	Two year	5.35
Broker loan rate	$7\frac{1}{4}$	Two month	-	Three year	5.36
Fed.funds	$5\frac{3}{8}$	Three month	5.13	Five year	5.42
Fed.funds at intervention	-	Six month	5.19	10-year	5.54
		One year	5.23	30-year	5.81

INTERNATIONAL BONDS

Jan 19	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM.								
EIB	02/07	5.750	AAA	104.6900	5.09	-0.03	-0.19	+0.11
Spain	01/07	5.750	AA	103.9200	5.19	-0.02	-0.22	+0.21
Philip Morris	03/04	5.375	A	100.9900	5.19	-0.01	-0.21	+0.54
Finland FRN	09/02	3.820	AA	100.7190	4.02	-	-0.25	-0.22
[illegible]								
Austria	01/04	5.500	AAA	103.6900	4.79	-	-0.19	+0.18
Abbey Nat	02/04	6.000	AA-	105.6700	4.90	+0.01	-0.21	+0.29
Cred Foncier	02/04	9.125	A	119.9800	5.21	-	-0.16	+0.60
3CIF FRN	12/01	3.750	AA-	99.8585	4.21	+0.01	-0.21	+0.04
■ EURO LIRA								
EIB	02/07	7.000	AAA	111.2500	5.40	-0.02	-0.09	+0.10
Abbey Nat	02/02	6.800	AA	106.2500	5.06	-0.06	-0.20	+0.20
Walt Disney	06/00	8.625	A	107.7000	5.13	-0.06	-0.12	+0.44
EIB FRN	03/01	5.825	AAA	100.1919	4.67	-0.08	-0.07	-0.08
■ EURO £								
EIB	12/07	7.625	AAA	109.0358	6.36	+0.01	-0.16	+0.23
Dresdner Bk	12/07	7.750	AA-	106.0623	6.88	+0.02	-0.12	+0.75
British Gas	03/00	7.625	A+	100.7845	7.20	+0.03	-0.08	+0.41
Abbey Nat FRN	02/02	7.830	AA	99.9806	6.38	+0.02	-0.07	-0.13
■ EURO $								
EIB	04/07	7.250	AAA	109.3794	5.90	-	-0.19	+0.40
ABN Amro	06/07	7.125	AA-	105.6345	6.32	+0.02	-0.10	+0.82
Quebec	01/07	7.000	A+	104.7597	6.30	+0.01	-0.11	+0.80
Citicorp FRN	02/04	5.938	A+	99.3282	6.07	-0.03	+0.11	+0.64
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	120.4296	5.67	-	-0.35	+0.20
Toronto	05/04	8.500	AA+	115.1978	5.58	+0.02	-0.36	+0.11
Bell Canada	07/99	10.625	A+	107.0451	5.49	-	-0.21	+1.02
Deutsche B FRN	09/02	5.875	AAA	101.3104	5.55	-0.04	-0.03	+0.19
■ EURO YEN								
World Bank	03/02	5.250	AAA	116.7000	1.13	+0.01	+0.05	+0.22
Spain	03/02	5.750	AA	118.6000	1.15	-	+0.02	+0.24
Cred Foncier	08/02	4.750	A	113.6058	1.62	+0.01	-0.08	+0.71
Italy FRN	07/99	0.594	AA	100.3226	0.30	-0.06	-0.11	-0.08

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Jan 19	Day's change %	Fri Jan 16	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	120.13	-0.03	120.17	2.30	0.81
2 5-15 years (21)	160.64	-0.03	160.69	1.94	0.74
3 Over 15 years (4)	187.00	-0.08	187.18	2.58	0.00
4 Irredeemables (4)	243.68	-0.17	244.30	2.96	0.00
5 All stocks (48)	153.32	-0.04	153.38	2.26	0.58
Index-linked					
6 Up to 5 years (2)	213.70	-0.02	213.74	1.86	0.00
7 Over 5 years (10)	217.57	-0.12	217.83	1.06	1.14
8 All stocks (12)	216.07	-0.11	218.31	1.13	1.02

UK Indices

— Low coupon yield — · Medium coupon yield · — High coupon yield —
Jan 19 Jan 16 Yr. ago Jan 19 Jan 16 Yr. ago Jan 19 Jan 16 Yr. ago

[illegible]

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

Jan 19 Jan 16 Jan 15 Jan 14 Jan 13 Yr ago High* Low*

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ♦ Indicative price.

CURRENCIES AND MONEY

Pound hits DM3 on hints of inflation

MARKETS REPORT

By Simon Kuper

The pound rose above DM3.00 against the D-Mark yesterday for the first time since August 6, as two surveys suggested that the UK economy was still growing fast enough to prompt inflation. The dollar also gained. Sentiment over the German economy has suffered from a recent string of poor economic data.

Yesterday's UK surveys, by the Institute of Directors and Dun & Bradstreet, showed that pay settlements were rising and that a growing number of companies expected to raise prices in this quarter.

The pound closed in London at DM3.004, 1.3 pfennigs up on the day, while the dollar advanced a pfennig to DM1.837.

However, trading was thin, with the US closed for Martin Luther King Day.

■ The yen went up and then down again. It rose in Asian trading as hopes grew that Japan would take more measures to stimulate its stagnant economy.

Ryutaro Hashimoto, the country's prime minister, said: "The two goals of fiscal reform and economic stimulus are compatible." Previously, the ruling Liberal Democratic Party had unveiled plans to help Japan's banks. These will be debated in parliament this week.

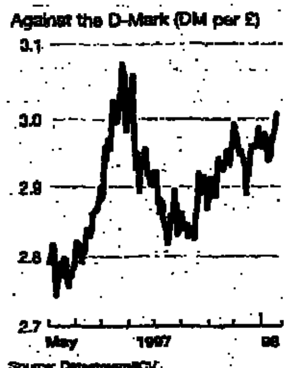
However, the yen backtracked after Mr Hashimoto denied a newspaper report that Japan had promised the US that it would implement a large extra budget. Even so, Gerard Lyons, chief economist at DKB International in London, concluded: "It's clear that the government is prepared to relax fiscal policy if necessary." The yen closed barely changed against the dollar at Y128.9.

Most Asian stock markets leaped again, thanks largely to the reports of Japanese fiscal stimulus. However, the only regional currencies to gain much were the South Korean won and the Philippine peso. Against the dollar, the won rose from 1,618 to 1,583, and the peso from 41.4 to 39.95/40.95. The Polish zloty hit an eight-month high on the apparent easing of the Asian financial crisis.

■ A little life has returned to the debate over the Irish punt. The punt's mid-rate within the European exchange-rate mechanism is DM2.41 to the D-Mark, but because it has long traded well above that, the currency was once expected to enter European monetary union at a higher rate.

Sterling

Against the D-Mark (DM per £)



Source: Datastream/ICV

On Friday, Klaus-Dieter Kuehbacher, Bundesbank council member, revived that belief. He simply noted that the punt was the only ERM currency to deviate much from its mid-rate, and then discussed the reasons why: broadly speaking, the Irish economy is strong, and sterling has dragged the punt higher.

Yesterday, sterling helped hot up the debate by rising above DM3.00. If the pound stays at that level – an enormous if – and the punt enters Emu at DM2.41, then I£1 would buy just 80p in Britain. That could spark inflation, as Ireland draws 36 per cent of its imports from the UK.

4CAST, the economic consultancy, says: "While it has been accepted of late that the Irish finance ministry had made a private decision not to revalue the punt for Emu, this decision could be subject to reassessment if sterling is now thought likely to hold firm this year." The punt rose slightly yesterday, to DM2.529.

■ The currencies market barely acknowledged that the European Union's Ecofin meeting had endorsed Italy's 1998 budget plan. The lira firmed just L1.3 against the D-Mark to L983.6.

■ The Tokyo market was busy last year. Turnover on spot dollar/yen trading in the city rose 26 per cent to $3,050bn, while options turnover for the same exchange rate, excluding direct dealing between banks, grew 33 per cent to $408bn, said the Tokyo Foreign Exchange and Money Brokers' Association.

Admittedly the comparison was with a tedious 1996. However, it seems likely that the 1995 figure always cited to demonstrate the size of the world currencies market – $1,200bn turned over each day – is well out of date.

It was also revealed yesterday that 70 per cent of last year's spot dollar/yen transactions in Tokyo were made through electronic brokers.

■ **Pound in New York**

Jan 16	Close	Prev. close
£ spot	1.6335	1.6305
1 mth	1.6310	1.6280
3 mth	1.6260	1.6230
1 yr	1.6045	1.6007

■ **OTHER CURRENCIES**

Jan 19	£	$
Czech Rp	58.2197 - 58.3093	35.6040 - 35.6370
Hungary	339.925 - 340.215	207.880 - 207.930
Iran	4906.60 - 4905.60	3000.00 - 3000.00
Kuwait	0.5005 - 0.5010	0.3061 - 0.3062
Poland	5.7853 - 5.7971	3.5380 - 3.5430
Russia	9.8276 - 9.8360	6.0100 - 6.0115
U.A.E.	6.0059 - 6.0099	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jan 19		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.1353	+0.0936	235 - 471	21.2465	21.0722	21.063	4.1	20.9365	3.8	20.4117	3.4	102.3
Belgium	(BFr)	61.9931	+0.2673	414 - 447	62.3090	61.8120	61.7668	4.4	61.3794	4.0	59.7572	3.6	101.5
Denmark	(DKr)	11.4445	+0.0523	394 - 496	11.5043	11.4153	11.4071	3.9	11.343	3.5	11.0748	3.2	103.9
Finland	(FM)	9.0812	+0.0422	744 - 879	9.1210	9.0570	9.0484	4.3	8.9928	3.9	8.7816	3.5	80.4
France	(FFr)	10.0608	+0.0429	557 - 659	10.1165	10.0362	10.0253	4.2	9.9645	3.8	9.7026	3.6	104.9
Germany	(DM)	3.0043	+0.0132	027 - 059	3.0213	2.9956	2.9937	4.2	2.9753	3.9	2.897	3.6	102.5
Greece	(Dr)	472.865	+1.435	311 - 418	475.387	470.299	476.413	-9.0	483.282	-8.8	505.938	-7.2	65.1
Ireland	(I£)	1.1882	+0.004	856 - 907	1.1921	1.1856	1.1869	1.3	1.1832	1.7	1.1562	2.7	93.2
Italy	(L)	2955.05	+9.1	348 - 661	2972.58	2950.56	2951.79	1.3	2944.53	1.4	2888.24	2.3	75.3
Luxembourg	(LFr)	61.9931	+0.2673	414 - 447	62.3090	61.8120	61.7668	4.4	61.3794	4.0	59.7572	3.6	101.5
Netherlands	(Fl)	3.3859	+0.0156	844 - 873	3.4036	3.3760	3.3735	4.4	3.3523	4.0	3.2634	3.6	100.8
Norway	(NKr)	12.3746	+0.0322	667 - 824	12.4459	12.3493	12.3322	4.1	12.2598	3.7	11.9873	3.1	97.1
Portugal	(Es)	307.168	+1.334	992 - 344	308.890	306.852	306.474	2.7	305.053	2.8	298.051	3.0	91.2
Spain	(Pta)	254.646	+1.173	486 - 805	255.780	254.090	254.067	2.7	252.9	2.7	247.019	3.0	76.3
Sweden	(SKr)	13.1648	+0.0401	567 - 729	13.2185	13.1377	13.1314	3.0	13.0748	2.7	12.8467	2.4	84.7
Switzerland	(SFr)	2.4521	+0.0072	505 - 536	2.4667	2.4474	2.4386	6.6	2.4156	6.0	2.3155	5.6	106.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	105.5
Ecu	-	1.5186	+0.0055	178 - 195	1.5252	1.5149	1.5143	3.4	1.5067	3.1	1.4724	3.0	-
SDR†	-	1.215050	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6355	-0.0006	349 - 360	1.6425	1.6325	-	-	-	-	-	-	-
Brazil	(R$)	1.8309	-0.0024	301 - 316	1.8418	1.8291	-	-	-	-	-	-	-
Canada	(C$)	2.3508	-0.0008	496 - 519	2.3594	2.3446	2.3446	3.2	2.3342	2.8	2.294	2.4	82.3
Mexico	(New Peso)	13.3760	-0.0446	678 - 841	13.4611	13.3645	13.5238	-13.3	13.7748	-11.9	14.9323	-11.6	-
USA	($)	1.6357	-0.0014	352 - 362	1.6436	1.6335	1.633	2.0	1.6281	1.8	1.606	1.8	109.7
Pacific/Middle East/Africa													
Australia	(A$)	2.4489	-0.0234	468 - 509	2.4675	2.4461	2.4435	2.6	2.4339	2.5	2.3918	2.3	87.3
Hong Kong	(HK$)	12.6530	-0.0115	458 - 601	12.7190	12.6400	12.7138	-5.8	12.8223	-5.4	13.3873	-5.8	-
India	(Rs)	63.7596	-1.477	583 - 609	65.3640	63.6583	-	-	-	-	-	-	-
Israel	(Shk)	5.8864	-0.0284	787 - 941	5.9215	5.8787	-	-	-	-	-	-	-
Japan	(Y)	210.760	-0.395	630 - 890	211.720	208.630	209.43	7.6	207.125	6.9	196.875	6.7	121.1
Malaysia	(M$)	6.8082	-0.0515	983 - 180	6.9132	6.6441	6.8018	1.1	6.806	0.1	6.99	-2.7	-
New Zealand	(NZ$)	2.7721	-0.008	696 - 746	2.7967	2.7696	2.7746	-1.1	2.7778	-0.8	2.7858	-0.5	103.7
Philippines	(Peso)	67.1046	-0.6693	614 - 478	67.2478	66.9614	67.7135	-10.9	69.0162	-11.4	75.2072	-12.1	-
Saudi Arabia	(SR)	6.1351	-0.0052	328 - 374	6.1643	6.1273	6.127	1.6	6.1126	1.5	6.048	1.4	-
Singapore	(S$)	2.8560	+0.0206	526 - 593	2.8879	2.8288	2.8693	-5.6	2.8926	-3.7	2.9347	-2.8	-
South Africa	(R)	8.1426	+0.0056	376 - 475	8.1744	8.1348	8.2003	-8.5	8.295	-7.5	8.6764	-6.6	-
South Korea	(Won)	2589.31	-61.08	852 - 010	2642.12	2567.60	-	-	-	-	-	-	-
Taiwan	(T$)	54.9473	-0.4104	182 - 763	55.3639	54.8740	54.8747	1.6	54.7456	1.5	54.132	1.5	-
Thailand	(Bt)	86.5286	-0.1533	568 - 004	88.8004	84.5400	87.2434	-9.9	88.5699	-9.4	95.3998	-10.3	-

† Rates for Jan 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 19		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J P Morgan Index
Europe													
Austria	(Sch)	12.9213	+0.0678	180 - 245	12.9680	12.8646	12.8983	2.1	12.8593	1.9	12.7093	1.6	102.8
Belgium	(BFr)	37.9000	+0.1945	800 - 200	38.0240	37.7510	37.824	2.4	37.6895	2.1	37.2075	1.8	101.7
Denmark	(DKr)	6.9967	+0.0377	957 - 977	7.0225	6.9743	6.9853	1.9	6.9669	1.7	6.8357	1.4	103.4
Finland	(FM)	5.5519	+0.0304	494 - 543	5.5676	5.5340	5.5409	2.4	5.5233	2.1	5.4554	1.7	80.0
France	(FFr)	6.1506	+0.0313	495 - 520	6.1757	6.1300	6.1392	2.3	6.1203	2.0	6.0413	1.8	104.4
Germany	(DM)	1.8367	+0.0096	363 - 371	1.8435	1.8294	1.8333	2.3	1.8275	2.0	1.8038	1.8	102.3
Greece	(Dr)	289.090	+1.115	840 - 340	290.150	287.610	291.74	-11.0	296.84	-10.7	315.64	-9.2	65.0
Ireland	(I£)	1.3767	-0.0057	742 - 792	1.3813	1.3714	1.376	0.7	1.376	0.2	1.3692	-0.9	-
Italy	(L)	1806.60	+7.05	619 - 700	1814.10	1802.00	1807.58	-0.7	1808.55	-0.4	1793.35	0.5	75.1
Luxembourg	(LFr)	37.9000	+0.1945	800 - 200	38.0240	37.7510	37.824	2.4	37.6895	2.1	37.2075	1.8	101.7
Netherlands	(Fl)	2.0700	+0.0112	697 - 702	2.0772	2.0609	2.0658	2.4	2.059	2.1	2.0319	1.8	100.9
Norway	(NKr)	7.5653	+0.0259	628 - 678	7.6038	7.5446	7.5518	2.1	7.5301	1.9	7.4638	1.3	96.4
Portugal	(Es)	187.790	+0.97	740 - 940	188.970	187.260	187.675	0.7	187.365	0.9	185.58	1.2	91.9
Spain	(Pta)	155.680	+0.845	630 - 730	156.140	155.190	155.583	0.8	155.333	0.9	153.805	1.2	76.1
Sweden	(SKr)	8.0484	+0.0311	459 - 509	8.0761	8.0290	8.0413	1.1	8.0306	0.9	7.9989	0.6	84.4
Switzerland	(SFr)	1.4991	+0.0056	986 - 996	1.5055	1.4942	1.4933	4.7	1.4837	4.1	1.4417	3.8	106.5
UK	(£)	1.6357	-0.0014	352 - 362	1.6436	1.6335	1.633	2.0	1.6281	1.8	1.606	1.8	104.7
Ecu	-	1.0772	-0.0048	768 - 775	1.0808	1.0732	1.0785	-1.4	1.0807	-1.3	1.0909	-1.3	-
SDR†	-	0.74538	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0005	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1193	-0.0006	192 - 194	1.1206	1.1192	-	-	-	-	-	-	-
Canada	(C$)	1.4372	+0.0008	369 - 374	1.4387	1.4348	1.4358	1.2	1.4338	1.0	1.4284	0.6	82.4
Mexico	(New Peso)	8.1775	-0.0205	750 - 800	8.1800	8.1750	8.2815	-15.3	8.4605	-13.8	9.2975	-13.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	110.5
Pacific/Middle East/Africa													
Australia	(A$)	1.4971	-0.0131	963 - 979	1.4979	1.4963	1.4963	0.6	1.4937	0.9	1.483	0.9	87.4
Hong Kong	(HK$)	7.7355	-0.0007	335 - 375	7.7420	7.7335	7.7855	-7.8	7.8755	-7.2	8.3355	-7.8	-
India	(Rs)	38.9800	-0.87	300 - 300	39.7400	38.9300	-	-	-	-	-	-	-
Israel	(Shk)	3.5987	-0.0144	951 - 023	3.6182	3.5951	-	-	-	-	-	-	-
Japan	(Y)	128.850	-0.135	810 - 890	129.470	127.430	128.245	5.6	127.215	5.1	122.48	5.0	122.2
Malaysia	(M$)	4.1623	-0.028	575 - 670	4.2200	4.0550	4.1653	-0.9	4.1803	-1.7	4.3523	-4.6	-
New Zealand	(NZ$)	1.6948	-0.0034	938 - 958	1.7016	1.6938	1.6979	-2.2	1.7033	-2.0	1.7221	-1.6	-
Philippines	(Peso)	41.0250	-0.375	500 - 000	41.1000	40.9500	41.4655	-12.9	42.39	-13.3	46.827	-14.1	-
Saudi Arabia	(SR)	3.7506	-0.0001	505 - 510	3.7510	3.7505	3.752	-0.4	3.7544	-0.4	3.7658	-0.4	-
Singapore	(S$)	1.7460	+0.014	445 - 475	1.7510	1.7270	1.757	-7.6	1.7705	-5.6	1.8273	-4.7	-
South Africa	(R)	4.9780	+0.0075	765 - 795	4.9795	4.9710	5.0215	-10.5	5.0947	-9.4	5.4022	-8.5	-
South Korea	(Won)	1583.00	-36	300 - 300	1595.00	1568.00	-	-	-	-	-	-	-
Taiwan	(T$)	33.5825	-0.223	850 - 000	33.7010	33.5190	33.6035	-0.4	33.625	-0.4	33.705	-0.3	-
Thailand	(Bt)	52.9000	-0.05	500 - 500	53.2000	51.7000	53.425	-11.9	54.4	-11.3	59.4	-12.3	-

† SDR rate per $ for Jan 16. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jan 16: Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

January 19	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3 5/8	3 3/4	3 1/2	3 25/32	3 5/8	6.00	2.75	-
France	3 1/2	3 3/4	3 15/32	3 5/8	3 3/4	4.60	-	3.30
Germany	3 15/32	3 3/4	3 15/32	3 5/8	3 3/4	4.50	2.50	3.30
Ireland	6 3/4	6 1/4	5 13/16	5 5/8	4 13/16	-	-	6.75
Italy	6 1/4	6 1/8	6	5 15/16	5 3/4	7.00	5.50	6.23
Netherlands	3 1/4	3 1/2	3 13/32	3 13/16	3 25/32	-	2.75	3.30
Switzerland	5/8	1 3/8	1 1/4	1 13/32	1 5/8	-	1.00	-
US	5 3/4	5 3/8	6 1/4	6	5 13/16	-	5.00	-
Japan	13/32	1/2	17/32	7/16	7/16	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 5/8	5 5/8	5 21/32	5 13/16	-	-	-
US Dollar CDs	-	5.38	5.40	5.42	5.47	-	-	-
ECU Linked Ds	-	4 1/32	4 1/4	4 1/8	4 13/32	-	-	-
SDR Linked Ds	-	3 5/8	3 5/8	3 7/8	4 1/4	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jan 19	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 7/16 - 3 1/4	3 13/32 - 3 9/32	3 7/16 - 3 5/16	3 9/16 - 3 7/16	3 21/32 - 3 5/8	3 27/32 - 3 23/32
Danish Krone	3 29/32 - 3 17/32	3 21/32 - 3 19/32	3 23/32 - 3 11/16	3 13/16 - 3 11/16	4 - 3 27/32	4 3/16 - 4 1/16
German Mark	3 7/16 - 3 5/16	3 7/16 - 3 1/4	3 1/2 - 3 13/32	3 5/8 - 3 15/32	3 21/32 - 3 9/16	3 13/16 - 3 23/32
Dutch Guilder	3 1/2 - 3 1/4	3 15/32 - 3 1/4	3 15/32 - 3 7/32	3 15/32 - 3 3/8	3 21/32 - 3 17/32	3 3/4 - 3 21/32
French Franc	3 7/16 - 3 5/16	3 21/32 - 3 1/2	3 17/32 - 3 13/32	3 19/32 - 3 1/2	3 11/16 - 3 19/32	3 27/32 - 3 23/32
Portuguese Esc.	5 - 4 13/16	5 1/16 - 4 31/32	5 1/32 - 4 31/32	4 13/16 - 4 3/4	4 13/16 - 4 23/32	4 13/16 - 4 23/32
Spanish Peseta	4 27/32 - 4 11/16	4 7/8 - 4 23/32	4 23/32 - 4 11/16	4 11/16 - 4 5/8	4 11/16 - 4 19/32	4 5/8 - 4 9/16
Sterling	7 1/2 - 7	7 9/32 - 7 5/32	7 1/2 - 7 1/4	7 5/8 - 7 1/2	7 21/32 - 7 17/32	7 21/32 - 7 17/32
Swiss Franc	1 1/8 - 5/8	1 7/16 - 1 3/16	1 3/16 - 1 1/16	1 13/32 - 1 9/32	1 15/32 - 1 11/32	2 1/16 - 1 29/32
Canadian Dollar	4 3/8 - 4 1/4	4 7/16 - 4 5/16	4 19/32 - 4 15/32	4 5/8 - 4 1/2	4 13/16 - 4 21/32	5 - 4 7/8
US Dollar	5 17/32 - 5 13/32	5 5/8 - 5 1/2	5 15/32 - 5 13/32	6 1/8 - 6 1/32	6 1/16 - 5 15/16	5 31/32 - 5 7/8
Italian Lira	6 1/2 - 5 1/2	6 5/16 - 6 3/32	6 1/4 - 6 1/8	6 3/32 - 5 31/32	5 3/4 - 5 21/32	5 1/4 - 5 3/16
Japanese Yen	9/16 - 7/16	21/32 - 19/32	1/2 - 13/32	15/32 - 3/8	15/32 - 3/8	1/2 - 3/8
Asian $Sing	1 - 1/2	12 - 7 1/4	14 - 9	12 1/2 - 10	12 1/2 - 9 1/2	12 - 10

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.37	96.36	-	96.37	96.34	5,435	78,911
Jun	96.24	96.23	-	96.24	96.21	3,582	45,269
Sep	96.14	96.13	-	96.14	96.11	2,677	31,040

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.37	96.35	-0.02	96.37	96.35	31443	354674
Jun	96.23	96.23	-0.02	96.25	96.22	28331	339581
Sep	96.14	96.13	-0.02	96.15	96.11	26993	236680
Dec	95.97	95.98	-0.02	96.01	95.95	25830	229721

■ **ONE MONTH EUROMARK FUTURES** (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan	-	96.50	+0.01	-	-	0	966
Feb	-	96.46	-	-	-	0	133
Mar	-	96.43	-	-	-	0	150
Apr	-	96.40	-	-	-	0	50

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.34	94.43	+0.08	94.44	94.32	28156	142459
Jun	95.07	95.23	+0.15	95.25	95.04	46739	142206
Sep	95.42	95.58	+0.14	95.59	95.39	26229	95269
Dec	95.61	95.71	+0.08	95.72	95.58	19764	114358

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.44	98.45	+0.01	98.48	98.43	5188	70093
Jun	98.31	98.31	-	98.33	98.29	2142	36577
Sep	98.18	98.20	-	98.22	98.18	1229	20698
Dec	98.04	98.02	-	98.04	98.01	538	10868

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	99.20	99.21	-0.01	99.20	99.20	200	n/a
Jun	-	99.32	-0.01	-	-	0	n/a
Sep	-	99.32	-0.02	-	-	0	n/a

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.66	95.65	-0.01	95.66	95.64	478	8595
Jun	95.69	95.69	-0.01	95.70	95.68	178	6808
Sep	95.70	95.70	-0.01	95.70	95.68	374	9456
Dec	95.87	95.86	-0.01	95.87	95.85	57	4282

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
9425	0.27	1.02	1.37	0.09	0.04	0.04
9450	0.13	0.79	1.14	0.20	0.06	0.06
9475	0.04	0.57	0.91	0.36	0.09	0.08

Est. vol. total, Calls 8908 Puts 8095. Previous day's open int., Calls 171183 Puts 74287

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 19		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.23	4.846	1.917	4767	5.462	19.96	495.5	410.8	21.24	3.956	1.613	3.792	2.639	340.0	2.449
Denmark	(DKr)	54.17	10	8.791	2.625	1.038	2582	2.959	10.81	268.4	222.5	11.50	2.143	0.874	2.054	1.429	184.2	1.327
France	(FFr)	61.62	11.38	10	2.986	1.181	2937	3.365	12.30	305.3	253.1	13.09	2.437	0.994	2.337	1.626	209.5	1.509
Germany	(DM)	20.63	3.809	3.349	1	0.395	983.6	1.127	4.119	102.2	84.78	4.382	0.816	0.333	0.783	0.544	70.15	0.505
Ireland	(I£)	52.18	9.632	8.468	2.529	1	2487	2.850	10.42	258.5	214.3	11.08	2.064	0.842	1.979	1.377	177.4	1.278
Italy	(L)	2.098	0.387	0.340	0.102	0.040	100	0.115	0.419	10.39	8.617	0.446	0.083	0.034	0.080	0.055	7.132	0.051
Netherlands	(Fl)	18.31	3.380	2.971	0.887	0.351	872.8	1	3.655	90.72	75.21	3.888	0.724	0.295	0.694	0.483	62.25	0.448
Norway	(NKr)	50.10	9.248	8.130	2.428	0.960	2388	2.736	10	248.2	205.8	10.64	1.982	0.808	1.900	1.322	170.3	1.227
Portugal	(Es)	20.18	3.726	3.275	0.978	0.387	962.0	1.102	4.029	100	82.90	4.286	0.798	0.326	0.765	0.533	68.61	0.494
Spain	(Pta)	24.34	4.494	3.951	1.180	0.467	1160	1.330	4.860	120.6	100	5.170	0.963	0.393	0.923	0.642	82.77	0.596
Sweden	(SKr)	47.09	8.693	7.642	2.282	0.903	2245	2.572	9.400	233.3	193.4	10	1.863	0.760	1.786	1.242	160.1	1.153
Switzerland	(SFr)	25.28	4.667	4.103	1.225	0.485	1205	1.381	5.047	125.3	103.8	5.369	1	0.408	0.959	0.667	85.95	0.619
UK	(£)	61.99	11.44	10.06	3.004	1.188	2955	3.386	12.37	307.2	254.6	13.16	2.452	1	2.351	1.636	210.8	1.518
Canada	(C$)	26.37	4.868	4.280	1.278	0.505	1257	1.440	5.264	130.7	108.3	5.600	1.043	0.425	1	0.696	89.65	0.646
USA	($)	37.90	6.997	6.151	1.837	0.726	1807	2.070	7.565	187.8	155.7	8.048	1.499	0.611	1.437	1	128.9	0.928
Japan	(Y)	29.41	5.430	4.774	1.425	0.564	1402	1.607	5.871	145.7	120.8	6.246	1.163	0.474	1.115	0.776	100	0.720
Ecu	-	40.83	7.537	6.626	1.979	0.782	1946	2.230	8.149	202.3	167.7	8.670	1.615	0.659	1.548	1.077	138.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.5475	0.5475	-	0.5501	0.5465	25,137	113,488
Jun	0.5504	0.5501	-	0.5525	0.5503	72	3,367
Sep	-	0.5524	-	-	-	31	1,633

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.7767	0.7805	+0.0031	0.7872	0.7741	30,185	90,936
Jun	0.7950	0.7905	+0.0031	0.7963	0.7904	53	2,267
Sep	0.8062	0.8005	+0.0032	0.8062	0.8020	156	340

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.6715	0.6720	+0.0008	0.6753	0.6711	20,919	62,714
Jun	0.6790	0.6787	+0.0008	0.6815	0.6785	140	1,018
Sep	-	0.6852	+0.0008	0.6880	-	5	1,107

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	1.6248	1.6296	+0.0050	1.6336	1.6228	5,504	33,998
Jun	1.6150	1.6218	+0.0050	1.6250	1.6150	13	1,401
Sep	-	1.6144	+0.0050	1.6180	-	2	5

UK INTEREST RATES

LONDON MONEY RATES

Jan 19	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 1/4 - 6 1/2	7 1/4 - 7 1/8	7 3/8 - 7 1/4	7 5/8 - 7 1/2	7 5/8 - 7 1/2	7 13/16 - 7 5/8
Sterling CDs	-	-	7 7/16 - 7 3/8	7 9/16 - 7 1/2	7 21/32 - 7 19/32	7 27/32 - 7 23/32
Treasury Bills	-	-	7 1/4 - 7 1/8	7 5/16 - 7 1/4	-	-
Bank Bills	-	-	7 3/32 - 7 1/4	7 15/32 - 7 13/32	7 7/16 - 7 3/8	-
Local authority deps.	7 1/8 - 7	7 1/4 - 7 1/8	7 13/32 - 7 11/32	7 17/32 - 7 15/32	7 19/32 - 7 17/32	7 25/32 - 7 17/32
Discount Market deps	7 3/16 - 7 1/16	7 3/16 - 7 1/16	-	-	-	-

UK clearing bank base lending rate 7 1/4 per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2 1/2	5 1/2	5	5	4 3/4

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/4pc. Ave. tender rate of discount on Jan 9. 6.8748pc. ECGD fixed rate Stg. Export Finance. Make up day Dec 31, 1997. Agreed rate for period Jan 26, 1998 to Feb 24, 1998, Scheme III 8.85pc. Reference rate for period Nov 29, 1997 to Dec 31, 1997. Schemes IV & V 7.709pc. Finance House Base Rate 8pc from Jan 1, 1998

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	92.38	92.39	-0.03	92.40	92.35	17241	140429
Jun	92.48	92.44	-0.04	92.48	92.39	24904	126704
Sep	92.60	92.58	-0.06	92.61	92.55	45644	101072
Dec	92.80	92.80	-0.05	92.81	92.77	17482	90343
Mar	93.01	93.02	-0.05	93.03	92.99	10496	73540

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
9225	0.21	0.32	0.48	0.07	0.13	0.15
9250	0.07	0.17	0.32	0.18	0.23	0.24
9275	0.02	0.08	0.19	0.38	0.39	0.36

Est. vol. total, Calls 9815 Puts 11433. Previous day's open int., Calls 191656 Puts 166254.

EMS EUROPEAN CURRENCY UNIT RATES

Jan 19	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.780491	-0.002011	-2.28	5.22	15
Finland	5.85424	5.97534	-0.00747	2.07	0.74	-14
Italy	1906.48	1947.37	+1.32	2.14	0.65	-16
Spain	163.826	167.690	+0.135	2.36	0.45	-16
Portugal	197.398	202.411	+0.246	2.54	0.27	-17
Denmark	7.34555	7.54095	+0.01116	2.66	0.16	-18
France	6.45863	6.63084	+0.00646	2.67	0.15	-22
Austria	13.5485	13.9260	+0.0161	2.79	0.03	-20
Germany	1.92573	1.97959	+0.00241	2.80	0.02	-28
Netherlands	2.16979	2.23067	+0.00282	2.81	0.01	-21
Belgium	39.7191	40.8392	+0.0488	2.82	0.00	-21
NON ERM MEMBERS						
Greece	295.269	311.434	-0.164	5.47	-2.52	-
UK	0.793103	0.657585	-0.004506	-17.09	24.01	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
1.630	0.50	1.75	2.34	0.05	1.51	2.32
1.640	0.03	1.28	1.89	0.58	2.06	2.83
1.650	-	0.92	1.46	1.48	2.64	3.44

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ **PHILADELPHIA SE D-MARK/$ OPTIONS** DM62,500 ($ per DM)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
0.540	0.53	0.94	1.24	-	0.31	0.54
0.545	0.11	0.64	0.95	0.05	0.50	0.73
0.550	-	0.41	0.70	0.42	0.77	0.99

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.44	94.42	-0.02	94.45	94.41	88,425	482,250
Jun	94.54	94.48	-0.05	94.55	94.47	76,296	400,022
Sep	94.55	94.49	-0.06	94.57	94.47	84,733	284,500

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.22	95.21	-0.04	95.22	95.19	349	7,786
Jun	95.26	95.23	-0.07	95.27	95.23	12	1,981
Sep	-	95.27	-0.06	-	95.27	10	38

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
9625	0.19	0.13	0.14	0.13	0	0.03	0.04	0.15
9650	0	0.02	0.03	0.03	0.06	0.17	0.18	0.30
9675	0	0.01	0.01	0.01	0.31	0.41	0.41	0.53
9700	0	0	0	0	0.56	0.65	0.65	0.77

Est. vol. total, Calls 8476 Puts 6656. Previous day's open int., Calls 314341 Puts 342098

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
9850	0.09	0.11	0.12	0.14	0.30	0.42
9875	0.03	0.05	0.06	0.33	0.49	0.61

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 850 Puts 2595

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25	* In administration	
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

COMMODITIES AND AGRICULTURE

LME to introduce more vigorous regulation

MARKETS REPORT

By Kenneth Gooding, Robert Corzine and Gary Mead

The London Metal Exchange is restructuring the office of the chief executive to allow for more vigorous independent regulation and compliance.

Regulation and compliance will now be the responsibility of a separate staff headed by Alan Whiting, who was recruited by the LME in October. Mr Whiting is a former senior UK Treasury official responsible for regulation.

The move is a first step by the exchange to police the over-the-counter market more effectively, David King, the LME chief executive, told Reuters in New York.

"We're clearly defining the *regulatory structure so that information* [about the OTC markets or affiliate contracts] goes to a restricted number of people, namely, Alan and those working for him," said Mr King. "Only independent members of the board would have access to that information. Board members would not have access to information that is passed to Alan on a daily basis."

He said the changes were being made not because of past problems but "because we have a duty and obligation to members and their clients to feel comfortable that the information won't pass between market participants".

Mr Whiting said: "We're putting forward proposals for member firms to provide us with more information about their OTC contracts with their affiliates and for information about their affiliates' clients."

On the LME nickel fell 2.8 per cent to a 3¼-year low, on speculative selling, to $5,430 a tonne.

Oil prices firmed, with the UN's confrontation with Iraq and a forthcoming meeting of Opec's monitoring committee underpinning prices. Brent Blend for March delivery was up 35 cents in late trading in London, to $15.82 a barrel. Reports that all Opec ministers will be invited to the Vienna meeting next week was *seen as a positive factor, although* it is unclear what action Opec could take – short of abandoning its recent output increase – to reverse the recent price retreat.

Analysts' reports that Ivory Coast could be headed for another record cocoa crop had little impact on the March contract, which closed £12 higher at £1,034 a tonne on the London International Financial Futures Exchange. The March contract for *Coffee* was unchanged by the close of business, at $1,725, having sunk to $1,705 earlier in the day.

Boom in drilling causes oil rig shortage

By Arkady Ostrovsky

Aggressive exploration policies by the world's oil companies are contributing to an offshore drilling boom and a shortage of oil rigs, according to the Global Marine, the Texas-based drilling contractor.

The company said the world-wide 30 per cent increase in demand for oil in the past few years also *underpinned oil rig demand*.

Jack Ryan, president of Global Marine said: "1997 was an outstanding year for *the offshore drilling industry*. During the year, day rates rose 42 per cent." That is high enough to justify the construction of new rigs.

But the shortage of oil rigs has continued, he said. "There is a shortage of deep-water rigs and shortage of anything that can drill at the depth of over 1,000 feet."

The day rate for a semi-submersible rig operating in the North Sea has jumped from $30,000 in 1994 to *$165,000. Day rates* for deep-water units are up to $200,000. Mr Ryan said it takes $300m and two to three years to build a new rig. "Companies are very keen to sign long-term contracts for oil rigs," he said.

The company said demand was particularly strong for deep-water mobile rigs for *work off the continental* shelves of West Africa and the Gulf of Mexico.

Mr Ryan ascribed current low oil prices to short-term factors, including increases in oil production quotas for Opec countries and the effects of the El Niño weather system.

● Exploration and appraisal *drilling in the UK offshore* sector was down 13 per cent last year, according to industry consultants Wood Mackenzie.

Lead-zinc mine in Yukon closes

By Kenneth Gooding, Mining Correspondent

The Faro mine in the Yukon, Canada, one of the world's biggest lead-zinc producers, is to close immediately. Closure comes at a crucial time in annual contract negotiations between zinc miners and smelters, which have been particularly difficult this year.

Faro produces lead and zinc in concentrate, an intermediate material. Its decision to restart production in December, after the mine had been idle for most of 1997, weighed heavily on the negotiations, which already had swung in favour of the smelters because of the Asian economic crisis.

Jim Lennon, analyst at Macquarie Equities, part of the Australian banking group, said the main impact of the closure would be on the concentrates markets rather than the refined lead and zinc markets.

"Faro's closure means that the surplus in both lead and zinc concentrates will be much smaller than would otherwise have been the case," he said. "And in the case of zinc, the concentrate surplus could be eliminated entirely."

Faro has the capacity to produce 130,000 tonnes of zinc, equivalent to nearly 2 per cent of world mine output, and 110,000 of lead, nearly 4 per cent.

Production was first suspended in December 1996 because of low lead and zinc prices, a high Canadian dollar and production problems. Mining was able to restart after Cominco, the Canadian mining company that is the biggest shareholder in Anvil Range, Faro's owner, contributed C$20m (US$13.9m) of loans. Also, Glencore, the Swiss-based group, contracted to buy the mine's concentrates until at least March 31.

Nevertheless, Anvil Range now says weakening lead *and zinc prices have substantially depleted its financial* resources and it is seeking court protection from its creditors.

Metals analysts expect drop in most prices

Prospects have changed dramatically since the Asian crisis took hold, writes **Kenneth Gooding**

This year's Financial Times poll of metals analysts makes very depressing reading for producers. All the analysts are forecasting lower average copper and lead prices this *year than in 1997. A big* majority expect nickel, tin and zinc prices to fall as well. However, nearly half suggest average aluminium prices will be higher.

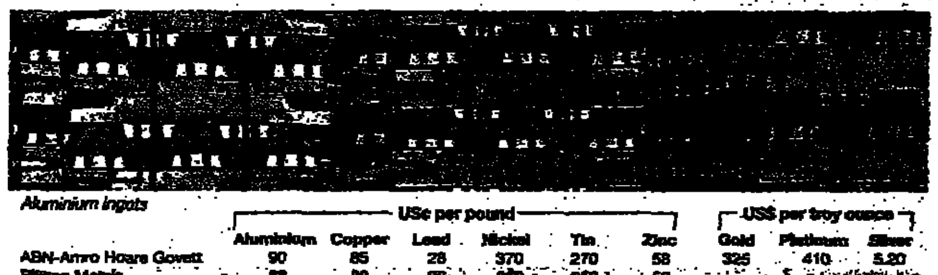
As for precious metals, while all the analysts are forecasting an average gold price lower than in 1997, most are still looking for a strong recovery from the present 18½-year lows and are predicting average prices for 1998 above $300 a troy ounce. All expect silver prices to be higher than the 1997 average but only one suggests prices above $7 a troy ounce – said to be the target of some speculators.

Without exception, the analysts say it is virtually impossible to make decent forecasts because of the rapidly changing economic conditions in Asia.

Amy Gassman at Goldman Sachs in New York revised her forecasts after visiting Asia and finding sentiment much more depressed than she expected. "The situation is getting worse every week that goes by," she says.

Nick Moore at Flemings Global Mining group insists that the Asian economic "maelstrom" is the biggest threat to metal markets since the early 1990s dissolution of the Soviet Union.

Forecasts of average 1998 metals prices



Aluminium ingots

	USc per pound						US$ per troy ounce		
	Aluminium	Copper	Lead	Nickel	Tin	Zinc	Gold	Platinum	Silver
ABN-Amro Hoare Govett	90	85	28	370	270	58	325	410	5.20
Billiton Metals	88	80	28	280	250	52	–	–	–
Brandeis (Brokers)	75	80	25	295	254	55	–	–	–
Chase Global Commodities	77	78	–	–	–	–	310	[illegible]	[illegible]
Credit Lyonnais Rouse	79.5	85	26	313	256	60	–	–	–
Deutsche Morgan Grenfell	70	82	24	279	260	53	290	[illegible]	5.20
Economist Intelligence Unit	69	83	25.25	283	249	55.75	–	–	–
First Marathon Securities	72	78	25	276	–	58	310	[illegible]	[illegible]
Flemings Global Mining	75	75	23	260	240	52	285	385	5.25
Goldman Sachs	72	85	–	315	–	55	310	[illegible]	[illegible]
T. Hoare	78	85	25	299	245	54	310	400	5.75
HSBC James Capel	80	81	28	328	240	60	330	435	5.00
ING Barings	70	81.6	26	272	249.5	59	250	292	–
Macquarie Bank	70	80	24	280	250	62.5	290	380	4.50
Merrill Lynch	70	80	23.5	285	260	52	290	385	5.00
Metal Bulletin Research	76	85	25	278	261	59	–	–	–
J.P. Morgan	70.5	80	25.5	300	240	56.8	–	–	–
Banque Paribas	75	88	27	308	269	59	320	380	5.25
RBC Dominion Securities	80	95	30	350	250	65	335	435	5.25
SBC Warburg Dillon Read	70	75	23	270	240	51	285	370	5.80
David Williamson Associates	70	80	30	300	270	50	330	380	5.75
Rudolf Wolff	78	84	26	299	254	60	–	–	–
Average spot prices									
1997	72.5	103.2	28.3	314	258	59.7	331.1	395.2	4.90
1996	68.3	104.1	35.1	340.3	278.5	46.5	387.8	398.1	5.19

"Then prices were crushed under a sudden torrent of metal stocks on to markets already struggling with economic recession and led to huge supply surpluses and desperately low prices," said Mr Moore. "This time it is the equally sudden loss of metal demand that threatens to propel markets back to supply surpluses."

Aluminium is the exception for many analysts. Annemarie Gardner at ABN-AMRO Hoare-Govett says stocks are close to critical levels, the physical market is tight and there is likely to be a shortage if the US continues its rapid growth.

"Premiums in the physical market already suggest *there is a shortage of metal*, though the bearish perception of the market is keeping the price at current low levels," she says.

"A similar situation was seen in the copper market early in 1994, when rapidly rising premiums in the physical market were ignored and the market remained bearish about the price because the statistics suggested [incorrectly] that *the market was in surplus*," said Ms Gardner.

Prospects for other base metals changed dramatically as the Asian crisis took hold and this has been reflected in the cut in price forecasts since last summer.

Alan Williamson at Deutsche Morgan Grenfell says that in June he was expecting all LME prices but copper to rise in 1998. Since then he has "aggressively downgraded" those forecasts, cutting his copper forecast from $1.70 to 82 cents a pound, aluminium's from 85 cents to 70 cents and nickel's from $4 to $2.79.

"The changes in metals demand that will be caused by the Asian crisis will swing most metals into supply surpluses and that makes a big difference to prices," he says.

Martin Squires at Rudolf Wolff estimates that, if there is zero growth in Asia this year the aluminium market would swing from an estimated supply deficit of 280,000 tonnes to a surplus of 70,000; copper's surplus would jump from 348,000 to 603,000 tonnes; lead's surplus would increase from 40,000 *to 75,000 tonnes; nickel's* from 12,000 to 25,000 tonnes while zinc's supply deficit would be reduced from *154,000 to 48,000 tonnes*.

Analysts agree base metals producers will be slow to react to lower prices. "So far there have been few signs that the producers will respond by quickly curbing *their production*," says Neil Buxton at Metal Bulletin Research. "This is, of course, in line with their behaviour in previous economic cycles.

"Somewhat perversely, and at odds with economic logic, it is often the lower cost producers which make the first and most significant cuts."

Fleming's Mr Moore says: "Producers tend not to cut output voluntarily, but hunker down in the hope that someone else folds first."

Macquarie Bank's Adam Rowley says the outlook for copper depends on how quickly production cuts are made. "A promising factor is that most producers are under-hedged, but a worrying sign is that the new capital-intensive copper projects are low cost and will try to expand output to service debt repayments. So 1998 could get ugly."

Ms Gardner at ABN-AMRO suggests the Asian turmoil also has longer-term implications for copper. "Producers have justified a continued high level of investment in new projects on the basis of an extremely positive demand outlook in Asia – forgetting the impact of the new capacity coming on stream in recent years has been offset by major production disruptions in Zaire, Zambia, Papua New Guinea and the US. The scale of these production disruptions are unlikely to be repeated."

Mr Moore says, with the exception of aluminium producers, most mining companies have been expanding. "Now they all face at least three years of over-supply. What are now needed are survival strategies," he says.

Alaska suffers big fall in salmon harvest

By Gary Mead

The Alaskan fishing industry is suffering after a mysterious drop in the salmon harvest, and the incomes of some fisherman have collapsed. Half of the anticipated 1997 sockeye salmon harvest failed to appear and local biologists admit to having no obvious explanation for the losses.

A total catch of 30.9m red sockeye – the most highly *prized salmon because of the* quality of its flesh and its high natural oil content – has been reported by the Alaskan Department of Fish and Game for 1997. The forecast for the year had been twice that size, while the catch in 1996 was 50.2m fish.

Japan and other east Asian countries are the biggest consumers of Alaskan sockeye salmon, and consumers there can expect a significant increase in the retail price.

In the Bristol Bay area, which normally provides around 55 per cent of Alaska's sockeye catch, just *12.3m fish* were caught, the lowest since 1978. Bristol Bay's lowest sockeye catch on record was in 1973, when just 1.5m were caught. Between 1893 and 1996 the average annual sockeye catch there was 13.6m fish.

Fishing is the biggest industry in western Alaska. Income from the 1997 catch for Bristol Bay fishermen has fallen to $63m, against a 21-year average of $131m. "The earnings of fishermen in the Bristol Bay area have collapsed from as much as $100,000 a year to less than $10,000 in some cases," said ADFG's Herman Savikko.

Jeff Regnart, a biologist and manager of the Bristol Bay area for the ADFG, said there was no obvious reason for the collapse. "Nobody really knows what happened," he said. "The fish came into fresh water to spawn and the survival rate of the eggs was decent. The fish then returned to the Pacific Ocean, where they stay for two or three years. The fishing just crashed."

ADFG scientists sample "tens of thousands" of fish every year *and discovered* nothing amiss. However, Mr Regnart and other experts at the ADFG point to an abnormal warming of the northern Pacific Ocean, which they detected in March 1997.

"The ocean's temperature then was as much as 30 per cent higher than normal, but we don't think it was related to El Niño; the warming of the ocean was a localised phenomenon," said Mr Savikko. "In any case, these fish died two or three years ago, out in the big black hole of the Pacific."

The UK is by far the world's biggest importer of canned *salmon* but retail prices are unlikely to rise significantly, as consumption is expected to continue to fall. In September the US Department of Agriculture forecast a 21 per cent drop in UK imports of US canned salmon in 1997.

JOTTER PAD

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from *Amalgamated Metal Trading*)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1478.5-79.5	1503-04
Previous	1496-97	1521-22
High/low		1506/1494
AM Official	1476-77	1496.5-97.5
Kerb close		1503-04
Open int.	276,935	
Total daily turnover	154,128	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1325-35	1352-57
Previous	1325-35	1355-60
High/low		1355/1350
AM Official	1328-30	1345-50
Kerb close		1355-60
Open int.	5,255	
Total daily turnover	*1,978*	

■ LEAD ($ per tonne)

Close	505.5-6.5	514-5
Previous	528-29	533-34
High/low		*524/509*
AM Official	503.5-4	513-4
Kerb close		512-14
Open int.	32,974	
Total daily turnover	12,898	

■ NICKEL ($ per tonne)

Close	5330-40	5435-45
Previous	5520-25	5610-15
High/low		5570/5420
AM Official	5390-95	5490-95
Kerb close		5430-40
Open int.	57,212	
Total daily turnover	27,065	

■ TIN ($ per tonne)

Close	5100-10	5145-55
Previous	5160-70	5200-205
High/low		5165/5140
AM Official	5085-90	5130-40
Kerb close		5140-45
Open int.	14,586	
Total daily turnover	3,611	

■ ZINC, special high grade ($ per tonne)

Close	1092.5-94.5	1116-18
Previous	1128-29	1152-53
High/low		1150/1109
AM Official	1092.5-93.5	1115-16
Kerb close		1115-16
Open int.	75,244	
Total daily turnover	36,477	

■ COPPER, grade A ($ per tonne)

Close	1680-81	1705-07
Previous	1715-16	1739.5-40.5
High/low		*1722/1700*
AM Official	1682-83	1707-08
Kerb close		1701-02
Open int.	151,077	
Total daily turnover	95,185	

■ LME AM Official £/$ rate: 1.6333
LME Closing £/$ rate: 1.6360

Spot: 1.6371 3 mths: 1.6296 6 mths: 1.6222 9 mths: 1.6142

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	287.30-287.80		
Opening	287.30		
Morning fix	285.75	174.72	429.20
Afternoon fix	287.25	175.68	430.59
Day's High	287.40-287.80		
Day's Low	285.10-285.50		
Previous close	289.40-289.90		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....3.83 6 months 3.79
2 months ....3.81 12 months 3.78
3 months 3.81

Silver Fix	p/troy oz.	US cts equiv.
Spot	*352.70*	*576.50*
3 months	351.70	572.20
6 months	351.55	569.25
1 year	351.90	564.80

Gold Coins	$ price	£ equiv.
Krugerrand	287.5-290.5	176-178
Maple Leaf	-	-
New Sovereign	67-70	41-43

LME WAREHOUSE STOCKS (tonnes)

Aluminium	–1,950	to	610,850
Aluminium alloy	–180	to	43,240
Copper	–675	to	339,675
Lead	–525	to	110,825
Nickel	–54	to	65,826
Zinc	–900	to	486,675
Tin	–130	to	12,945

ENERGY

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	15.78	+0.31	15.88	15.69	12,006	95,348
Apr	15.91	+0.29	16.00	15.89	3,510	27,155
May	16.12	+0.31	16.15	16.04	724	18,211
Jun	16.22	+0.22	16.31	16.22	886	19,892
Jul	16.39	+0.21	16.47	16.39	1,138	13,004
Aug	16.60	+0.26	16.60	16.60	172	5,302
Total					n/a	n/a

■ *GAS OIL IPE ($/tonne)*

	Sett price	Day's change	High	Low	Vol	Open int
Feb	144.00	+3.50	144.50	143.00	5,429	27,957
Mar	145.25	+3.25	146.00	144.50	2,333	13,915
Apr	147.00	+3.50	147.00	146.25	525	10,449
May	148.75	+3.50	148.75	148.00	240	5,303
Jun	150.50	+3.25	150.25	149.75	1,048	12,380
Jul	152.25	+3.00	152.00	151.25	502	3,398
Total					15,641	100,198

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	14.250	+0.020	14.350	14.200	30	3,340
Mar	11.350	+0.200	11.350	11.250	10	1,800
Total					280	11,918

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	77.40	–0.25	77.00	77.00	23	30
Mar	78.85	–0.30	78.85	78.40	145	2,787
May	80.90	–0.25	81.00	80.40	321	3,718
Jul	82.90	–0.25	82.75	82.50	15	521
Sep	80.25	–0.25	-	-	-	38
Total					521	8,328

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	73.25	–0.25	-	-	-	16
Mar	74.75	–0.25	74.75	74.25	26	1,377
May	76.00	–0.25	75.75	75.75	4	20
Sep	77.40	–0.25	-	-	-	6
Nov	79.40	–0.25	-	-	-	155
Total					30	1,622

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	83.0	-	-	-	-	-
Apr	102.5	–3.5	102.0	98.0	77	1,083
May	112.5	–3.5	-	-	-	67
Jun	122.5	–3.5	-	-	-	-
Nov	54.0	-	-	-	-	3
Total					87	1,193

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1122	–9	1128	1122	11	538
Feb	1110	–15	1115	1110	14	239
Mar	1150	–10	1151	1150	71	294
Apr	1170	–15	1180	1170	104	472
Jul	1080	–	-	–	–	134
Total					200	1,738

	Close	Prev
BFI	1169	1175

VOLUME DATA
Open Interest and Volume data shown for *contracts traded on COMEX, NYMEX, CBT*, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1033	+11	1034	1022	1,204	61,211
May	1057	+10	1057	1048	606	24,623
Jul	*1078*	+10	*1075*	*1073*	124	*12,813*
Sep	1098	+11	1100	1091	305	22,684
Dec	1126	+11	1126	1121	118	27,950
Mar	1154	+10	1154	1149	759	18,509
Total					3,174	184,414

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1810	–	1820	1800	366	2,280
Mar	1725	–	1726	1705	1,385	25,256
May	*1700*	–2	*1703*	*1685*	*607*	*10,140*
Jul	1682	–	1680	1670	53	2,036
Sep	1672	–	1670	1670	2	840
Nov	1667	–	–	–	–	48
Total					2,413	40,600

Softs continued

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	299.3	+1.3	299.8	297.4	2,308	21,744
May	302.5	+0.5	303.0	300.6	748	10,936
Aug	305.1	+0.6	305.6	304.5	184	5,048
Oct	299.8	+0.3	300.2	299.2	160	5,429
Dec	302.3	+0.8	302.2	301.0	110	265
Total					3,510	43,831

FUTURES DATA
All futures data supplied by CMS.

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Feb	May	Feb	May
1475	30	72	19	45
1500	18	60	32	57
1525	10	49	48	71
■ COPPER (Grade A) LME	**Feb**	**May**	**Feb**	**May**
1700	27	78	40	88
1750	11	56	73	96
1800	5	40	116	127
■ COFFEE LIFFE	**Jan**	**Mar**	**Jan**	**Mar**
1700	3	74	45	49
1750	-	51	92	76
1800	-	35	142	110
■ COCOA LIFFE	**Mar**	**May**	**Mar**	**May**
1025	31	61	23	29
1050	21	49	38	42
1075	15	38	57	56
■ BRENT CRUDE IPE	**Mar**	**Apr**	**Mar**	**Apr**
1550	-	-	32	52
1600	45	-	58	78
1650	25	46	-	-

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	480.00	+3.00	480.50	478.00	34	412
Jun	503.50	+3.50	503.50	500.50	32	412
Total					66	843

Tea from The Tea Brokers' Association
Landed: There was exceptionally strong demand for the two main packers. Assams *advanced up to 75 pence on extremely* active bidding. Kenyas and Burundis also closed 25 pence higher, with plain Malawis fully firm. **Offshore:** Very strong and up to 40 pence dearer for colourly Zimbabwes, *while other Central Africans remained fully* firm. **Landed price indications** (last week's figures in brackets): best available, 275p (204p); good, 230p (189p); good medium, 205p (180p); medium, 180p *(170p); low medium, 122p (NQ)*. The highest price realised this week was 275p for a North Indian PF.

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$13.67-3.75x	+0.38
Brent Blend (dated)	$15.33-5.36	+0.505
Brent Blend (Mar)	$15.83-5.86	+0.455
W.T.I.	$16.52-6.54x	

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$174-176	+3
Gas Oil	$144-145	+3
Heavy Fuel Oil	$70-72	
Naphtha	$156-157	+3
Jet fuel	$162-165	+3
Diesel	$149-151	+3.5

■ NATURAL GAS (Pence/therm)

Bacton (Feb)	14.20-14.30	-0.05

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$287.55	-2.10
Silver (per troy oz)♣	*575.50c*	*-12.75*
Platinum (per troy oz.)	$376.00	-3.00
Palladium (per troy oz.)	$231.00	+4.00
Copper	82.0c	-1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.93r	-0.59
Tin (New York)	245.5	
Cattle (live weight)	87.04p	-3.18*
Sheep (live weight)	86.01p	-0.59*
Pigs (live weight)†	59.87p	+0.45*
Lon. day sugar (raw)	$270.90	-0.50
Lon. day sugar (wte)	$295.20	+1.10
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	*Unq*	
Rubber (Feb)♥	49.00p	+2.00
Rubber (Mar)♥	50.00p	+3.00
Rubber (KL RSS No1)	300.50m	
Coconut Oil (Phil)§	545.0y	-5.0
Palm Oil (Malay.)§	630.0	+10.0
Copra (Phil)§	$382.5y	+2.5
Soyabeans (US)	180.0	
Cotton Outlook 'A' index	71.20c	
Wooltops (64s Super)	385p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. x Mar. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 514 head of pigs sold.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jan 19	Jan 16	month ago	year ago
1742.8	1739.1	1749.2	1924.3

■ CRB Futures (Base: 1967 = 100)

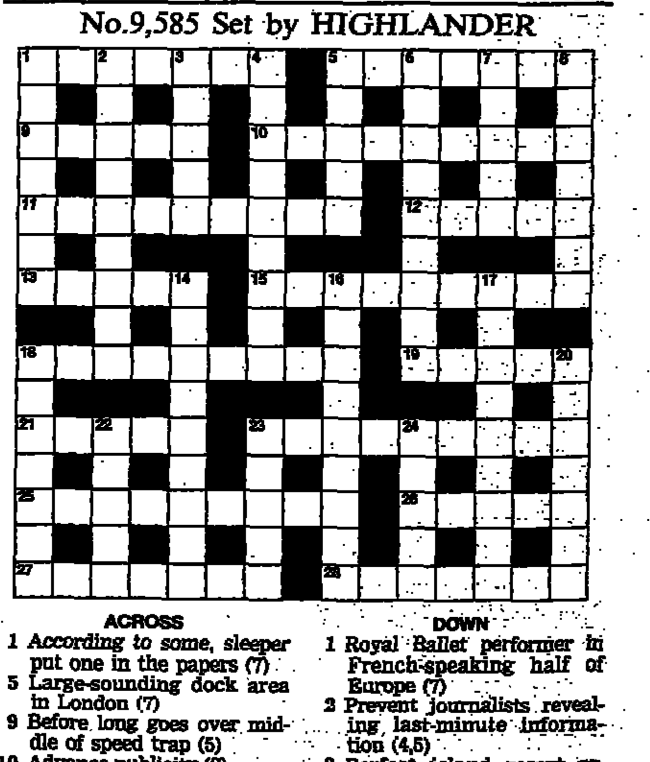
Jan 16	Jan 15	month ago	year ago
na	228.52	-	-

■ GSCI Spot (Base: 1970 = 100)

Jan 16	Jan 15	month ago	year ago
171.01	169.64	180.75	214.75

CROSSWORD

No.9,585 Set by HIGHLANDER



ACROSS

1 *According to some*, sleeper put one in the papers (7)
5 Large-sounding dock area in London (7)
9 Before long goes over middle of speed trap (5)
10 Advance publicity (9)
11 Getting rid of old orthography is a non-starter (9)
12 Has to translate bad language (5)
13 Devices used by anglers after river fish (5)
15 *Girl appearing in each is a* plant (9)
18 American-backed buyer is a supporter of stocking up (9)
19 Keen to have a German commentator cover it (5)
21 Severely criticise cooked meat when covered in rubbish (5)
23 *Fruit* used *as* vegetable requires shade (9)
25 An electrical discharge before this broadcast is revolutionary (9)
26 Bad atmosphere starts to undermine Elgar's music (5)
27 Half open limes perhaps as starters (7)
28 Surprised expression on Queen's investigating officer (7)

DOWN

1 Royal Ballet performer in French-speaking half of Europe (7)
2 Prevent journalists revealing last-minute information (4,5)
3 Perfect island resort on Kent coast (5)
4 Revise primer and reproof (9)
5 Not so worn out by end of spring (5)
6 The first professional to use *a Remington?* (9)
7 I had it put round old fool (5)
8 Start a book (7)
14 Sight and one of the two required to correct it (9)
16 Car and boat involved internal combustion – like tightrope walker? (9)
17 *Recording*, working and accessing system (7,2)
18 Top level expert on waves (7)
20 Eggs laid on grass taken over for cud-chewers (3,4)
22 Cut off a bit (5)
23 Warwickshire cricketer as good as a mile? Wrong (5)
24 Judge and queen apply (5)

Solution to Saturday's prize puzzle on Saturday January 31.
Solution to yesterday's prize puzzle on Monday February 2.

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Offshore Funds

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

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Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

[illegible]

Aberdeen Atlas Funds

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Grs
Global Cap Portfolio			$3.518		—	-
[illegible]			[illegible]		—	-
Europe Portfolio		0	DM2.455		—	-
[illegible]			[illegible]		—	-

American Phoenix Investment Portfolios (u)

[illegible]

BAII Asset Management Ltd

[illegible]

Bank Von Ernst & Cie AG

[illegible]

Banque Indosuez

[illegible]

Barclays Diversified Portfolio (z)

[illegible]

Fleming Group - Contd.

Fleming Flagship Series II (Daily Dealing)

[illegible]

Foreign & Colonial Emerging Markets Ltd (u)

Exchange Ho, Primrose St, Ldn, EC2A 2NY 0171-628 1234

F&C Emerging Markets

	Selling Price	+ or -	Yield Grs
Argentinian Inv Co F	$24.07	+0.49	-
[illegible]	$39.87	+0.98	-
[illegible]	$10.33	+0.29	-
[illegible]	$17.40	+0.34	-
Mexican Inv Co SICAV F	$29.64	+0.89	-

Foreign & Colonial Portfolios Fd Sicav (u)

47 Boulevard Royal, L-2443 Lux 01534 564541

	Selling Price	+ or -	Yield Grs
Am Gr & Cos Eq F	$47.38	[illegible]	-
Emerging Asian Eq F	$13.17	[illegible]	-
[illegible]	£10.04	[illegible]	-
[illegible]	£9.91	[illegible]	-

Frontrunner I (u)

[illegible]

GT Global

[illegible]

HSBC Investment Funds Luxembourg SA (u)

[illegible]

Morgan Stanley Sicav

C/O First European Transfer Agent S.A.

[illegible]

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

[illegible]

Credit Suisse Asset Mgmt Funds - Contd.

[illegible]

Merrill Lynch Asset Management - Contd.

[illegible]

Swiss Bank Corporation - Contd.

[illegible]

Equity Fund Managers

[illegible]

Eurolife Assurance Group

[illegible]

OFFSHORE INSURANCES

[illegible]

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	Selling Price	Buying Price	+ or -	Yield Gross
Premier Life				
Davenport Chelwick £ Fd.	£1.280	1.360	—	-
Argent Bond	£16.680	17.130	—	-
Argent Equity Gth	£18.280	17.410	—	-
GH 10	$141.81	1.95	+0.01	-
LX 10	$1.69	2.13	-0.04	-
Professional Investment Consultants				
Premier Lux $	$1.17	1.29	—	-
Premier Lux £	£0.80	0.85	—	-
PCI Worldwide Opps	$1.330	1.430	—	-
Royal Life International				
Royce Court, Athony Rd, Castletown IoM			01624 821212	
Pension Growth A	£1.767	1.860	—	-
S.A.M. 1	£1.807	1.900	—	-
S.A.M. 2	£1.332	1.400	—	-
S.A.M. 3	£2.373	2.498	—	-
S.A.M. 4	£1.857	1.955	—	-
Sterling Money Market	£1.620	1.670	—	-
Dollar Money Market	$1.229	1.229	—	-
UK Index Tracker	£2.571	2.705	—	-
Royal Skandia Life Assurance Ltd (z)				
Skandia Hse, Finch Rd, Douglas IoM			01624 611611	

	Selling Price	Buying Price	+ or -	Yield Gross
Asia Pacific Securities Corp Ltd				
Indian Scill Fd	$7.03		...	-
Asian Convertibles & Income Fd (Cayman)				
NAV Jan 2	$11.16		...	-
Atlantico Investment Ltd				
Atlantico Latin Pan Jan 2	$107.81		...	-
Atlantis Fund Management (Guernsey) Ltd				
Atlantis Intl Growth Fd Inc Jan 7	$41.17	43.71	—	-
Atlas Management Limited				
Managed	$9.63	10.10	...	-
Aurum Funds				
BAS–EX Currency Fund Plc				
BAX–EX US$ Currency Fund Plc				
NAV	$100.00		...	-
BEA Associates				
BNP				
Julius Baer Bank & Trust Co Ltd				
Liquibaer	$2607.00	2646.00	...	-
Baer Global Bond	$12.70		...	-
Bahia Fund				
Banca Eolo, S.A. (Principality of Andorra)				
Banco do Brazil–BB Fund				
Banc Internacional D'Andorra Banca Mora				

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(**) Funds not FSA recognised. The regulatory authorities for these funds are:
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Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland/Irish Department of Enterprise and Employment
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
OEIC - Open Ended Investment Company.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(✝) 0001 to 1100 hours
(✝) 1101 to 1400 hours
(✝) 1401 to 1700 hours
(✝) 1701 to midnight
E Exit charge on sale of units.
C Manager's periodic charge deducted from capital.
H Historic pricing F - Forward pricing
b Distribution free of UK taxes.
p Periodic premium insurance plans.
s Single premium insurance.
u Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x Offered price includes all expenses except agent's commission.
z Previous day's price.
§§ Guernsey gross.
♦ Yield before Jersey tax.
† Ex-subdivision. xd - Ex-dividend.
‡ Only available to charitable bodies.
♦ Yield column shows annualised rates of NAV increase.

The fund prices published in this edition are also available at the Financial Times' web site, http://www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£23¼		*£27⅞	£21⅝	-	2.9	♦
Barlow	♣	£8½	+⅛	£8¼	£4½	-	3.2	♦
Gold Flds Prop R		110½	-½	187	110½	-	7.2	8.2
SA Brews	†	£13½	+⅛	£23¼	£13⅛	-	2.5	-
Standard Bank		£28½	+½	£30	£22½	-	2.0	-
Tiger Oats		815	+15	1160	788	-	2.3	♦
Tongaat-Hulett		752¼	-2½	789	719½	-	2.3	♦

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		£5210xd	...	£5240	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on SMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas Incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1485 a year for each security shown, subject to the Editor's discretion

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Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.95.
To order, call 0121 200 4678.
Reports published by ShareFinder.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.
Calls are charged at 50p per minute at all times.
An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.
All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request.
Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie stalls after early race towards new high

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

An attempt to drive the FTSE 100 index through its previous closing high failed yesterday morning and was followed by a sustained bout of profit-taking.

Such was the weight of selling, triggered mostly by a strong showing by sterling, but also by a disappointing public sector borrowing requirement, that an early 50-point Footsie gain was almost wiped out.

Footsie closed with a modest 10.5 rise at 5,273.6, having risen 50.5 at its best, recrossing the 5,300 level in the process. The previous closing record, 5,330.8, was reached on October 3 1996.

The second-line issues also closed off their session highs, but not to the extent of the leaders. The FTSE 250 index settled 20.2 ahead at 4,832.8, having reached 4,835.6 in mid-morning.

The FTSE SmallCap, meanwhile, was always on the upward tack, and was finally quoted up 6.6 at 2,362.6.

London suffered from the absence of any followthrough of the recent US rally, which has sustained Footsie's recovery. Wall Street was closed yesterday for Martin Luther King day.

London's early surge came as a direct result of Friday's 62-point rise on Wall Street and the widespread substantial gains across Asian markets.

Among the latter, Hong Kong stood out with a 5.6 per cent advance, with Seoul and Singapore up similar amounts and Tokyo 1.3 per cent firmer.

Takeover speculation helped fuel the initial gains in the UK market. Dealers said the focus of the rumours was the financial sector, where the banks have been on alert for a big bid for many months, and pharmaceuticals, where there have been rumours of a link between SmithKline Beecham and one of the big US groups.

In the event there was a flurry of bid activity concentrated on Allied Colloids, the chemicals group, where Hercules, the original US bidder, announced its intention to raise its bid, only to be trumped minutes later by Ciba Speciality Chemicals, which moved into the stock market to snap up a near 5 per cent stake in Allied. Hercules then responded with an even higher offer of its own.

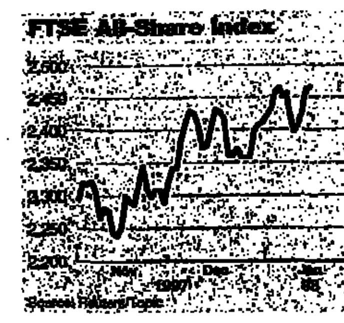
Pharmaceuticals provided three out of the top six performers in the FTSE 100 table, with SmithKline top and the three companies effectively accounting for the Footsie's gain.

Sterling's latest advance, especially against the D-Mark, caused problems for the engineers and other exporters, with Rolls-Royce, GKN and BTR coming under increasing downside pressure.

The list of underperforming retailing stocks grew longer with Body Shop disappointing shareholders with a warning of flat profits for the full year.

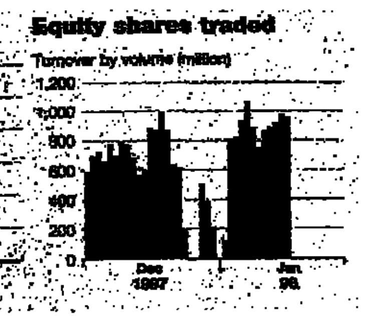
The absence of any US participation did not have too much of an effect on turnover in the equity market; at 6pm overall turnover was a hefty 956.9m shares, boosted by the big action in Allied Colloids, which accounted for almost 7 per cent of total business.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5273.6	+10.5	FT 30	3312.3	-14.7
FTSE 250	4832.8	+20.2	FTSE Non-Fins p/e	20.52	20.45
FTSE 350	2527.9	+6.0	FTSE100 Fut Mar	5293.0	-33.0
FTSE All-Share	2467.54	+5.96	10 yr Gilt yield	6.16	6.15
FTSE All-Share yield	3.14	3.15	Long gilt/equity yld ratio	1.97	1.96

Best performing sectors

1 Pharmaceuticals .... +5.0
2 Consumer Goods .... +2.7
3 Support Services .... +1.8
4 Property .... +1.2
5 Diversified Inds .... +1.1

Worst performing sectors

1 Engineering: Vehicles .... -3.0
2 Paper: Pckg & Print .... -2.2
3 Oil: Integrated .... -1.5
4 Electronic & Elec .... -1.5
5 Engineering .... -1.3

Barclays reshuffle mooted

By Joel Kibazo, Peter John, Martin Brice and Melanie Senior

Barclays eased 9 to £17.43, but yesterday's comparatively desultory performance preceded news of a radical group-wide restructuring. Barclays had intended to announce the changes with its figures next month.

The bank is to reorganise its costly high street network and create four separate divisions: retail financial services, UK business banking, investment banking and asset management. Retail banking will be headed by John Varley, previously chairman of the group's asset management business.

The root and branch operation would be a continuation of Barclays' strategy following its disposal of BZW.

A stock market hungering for corporate activity took the story of a SmithKline Beecham merger and ran with it.

While the pharmaceuticals leader was not prepared to comment on speculation that it was poised to announce a significant deal with American Home Products of the US, the company's shares shot to the top of the Footsie performance chart with a rise of 61 to 743p.

The near 9 per cent gain acted as a catalyst on the rest of the sector and Glaxo Wellcome jumped 52 to £16.39 while Zeneca ran a close third with a rise of 72 to £22.97.

SmithKline would not comment on reports raising the prospect of a merger between the two companies, but several analysts were convinced talks had taken place. The story received further momentum after one broker sent a fax to its investment clients which stated that SmithKline had held a board meeting on Sunday.

HSBC James Capel was also reinforcing its "add" recommendation. However, James Culverwell of Merrill Lynch remained sceptical. "Once you have critical mass, size for size's sake gives no obvious strategic advantage," he said.

Pilkington hit

Pilkington took the wooden spoon among FTSE 250 stocks after a weekend press report that a profit warning was in the offing. The shares dropped 10¼ to 104½p in volume of 10m.

The company pointed out that one of its joint brokers, Cazenove, six weeks ago reduced its forecast for this year to £110m. Charterhouse Tilney, joint brokers, recently reduced its forecast from £130m to £115m.

Sentiment in the glassmaker's stock was helped by an announcement that Andrew Robb, the finance director, had bought 12,000 shares at 108p each, while Sir Nigel Rudd, chairman, had bought 100,000 for 107½p each.

BSkyB shed 31½ to 378¼p, its lowest level for more than two years. JP Morgan has started coverage of the stock with a "market underperformer" recommendation.

The broker believes that the possibility of a new entrant in the market, the loss of Premier League rights and adverse regulatory rulings could each lop 100p off the share price.

News that Allied Domecq has received an approach from at least one potential bidder for its drinks business sent shares in the group sharply ahead. They put on 21 to 568p, in trade of 21m.

A press report said Allied had been in talks with several companies since the May announcement of the £23bn merger of Guinness and GrandMet to form Diageo.

The merged giant was a busy trade with turnover of 14m as the shares eased 2 to 563p. Analysts yesterday left their forecasts for the year to June 1998 broadly unchanged at about £1.83bn following the company's release of a trading update in line with expectations.

The earlier 155p a share bid for Allied Colloids by Hercules of the US was given not one but three fresh twists yesterday. Hercules came back with a new offer at 175p a share for the chemicals group. Then, Ciba of Switzerland bought 4.57 per cent of the company and said it was in talks over an offer of 182½p a share.

Finally, Hercules returned to the table with 195p a share. Both companies had been buying in the market and between them they pushed the share price up 28 to 196½p.

Several of the leading food retailing issues moved ahead after a better-than-expected Christmas trading statement from Tesco.

The company said sales in the five weeks covering Christmas and the New Year rose 10 per cent from a year earlier and were 6.5 per cent higher on a like-for-like basis.

A two-way pull in Tesco saw the shares edge ahead to 512½p, on turnover of 4.9m. Those in J Sainsbury firmed 3½ to 503¾p, while Safeway improved 1½ to 367½p.

However, Asda Group, which dealers continue to suggest may soon launch a bid for one of its rivals in the sector, was unloved, as the shares fell 5½ to 189½p.

Falkland Island Holdings, which has been spun off from the former Anglo United, rose to a premium to the 100p at which it relisted, and closed at 170p. Anglo United's last quote was ½p; shareholders were offered one Falklands share for every 300 in Anglo.

Signs of a recovery in Asia filtered through to two smaller companies. Despite losses of M$5.7m, Petaling Tin rose 11 to 40½p. And Golden Hope, an agricultural group, gained 7 to 54½p following crop output figures for December 1997.

Proteus healthy

The day's largest percentage rise was clocked up by pharmaceutical group Proteus, which gained 38 per cent, or 23, to 83p. This followed news that the group's technology had been used to carry out BSE tests on beef that went on sale today in Ireland.

Panmure Gordon was recommending the stock. Analyst Stuart Rollason said the company could add £1.3m to the bottom line and reverse last year's £250,000 loss.

Bluebird Toys jumped 27½ to 112½p, after an 101p-a-share hostile bid from Guinness Peat, the investment company, which values Bluebird at £42m. Dealers said the 11 per cent premium to the cash offer anticipated further corporate activity.

Fashion retailer Style Holdings also moved up 5 to 134½p, after news of a 28 per cent increase in sales over last year. Superscape VR climbed 18 to 132p. The software group announced another contract with NTT Data.

Cantab Pharmaceuticals lifted 25 to 670p as UBS initiated coverage of the stock with a buy recommendation.

Tomkins gained 9 to 331p following positive comment from UBS.

FT 30 INDEX

	Jan 19	Jan 16	Jan 15	Jan 14	Jan 13	Yr ago	*High	*Low
FT 30	3312.3	3327.0	3301.1	3268.9	3262.9	2817.0	3430.3	2668.8
Ord. div. yield	3.37	3.37	3.40	3.44	3.44	4.12	4.22	3.29
P/E ratio net	21.49	21.54	21.31	21.09	21.09	17.27	22.33	15.80
P/E ratio nil	21.20	21.24	21.02	20.81	20.80	17.11	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3327.0	3351.7	3339.6	3335.4	3312.9	3310.6	3315.8	3315.3	3310.9	3358.4	3306.4

	Jan 19	Jan 16	Jan 15	Jan 14	Jan 13	Yr ago
SEAQ bargains	68,959	75,277	56,639	52,949	55,428	52,457
Equity turnover (£m)†	-	2570.6	2502.3	2147.7	2387.5	947.7
Equity bargains†	-	56,774	48,994	42,932	54,216	28,879
Shares traded (ml)†	-	768.5	725.3	627.8	708.7	360.3

†Excluding intra-market and overseas turnover but including Crest turnover.

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■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,023	Total Highs	183	Total contracts	27,040
Total Falls	579	Total Lows	89	Calls	14,105
Same	1,430			Puts	12,935

Jan 19 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5335.0	5293.0	-19.0	5350.0	5265.0	7668	61796
Jun	-	5351.0	-16.0	-	-	0	346

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	4917.0	+20.0	-	-	0	6190

■ FTSE 100 INDEX OPTION (LIFFE) (*5282) £10 per full index point

	5100 C	5100 P	5150 C	5150 P	5200 C	5200 P	5250 C	5250 P	5300 C	5300 P	5350 C	5350 P	5400 C	5400 P	5450 C	5450 P
Feb	285½	88½	246½	98½	218½	114	178½	134	144	154½	115	179	91½	208½	67½	239½
Mar	339	145½	305	165	275½	184½	244	202½	212	220	188½	243½	157½	272½	134½	301½
Apr	386	185	355½	204	326	223½	295	243½	265	264½	236	287	214½	316	193	345½
May	434½	238½	402½	256	375	278	347½	299½	320	321½	292½	343	264½	364½	263½	387
Jun†	491	249			428½	287½			386	327			308	374½		

Calls 1,693 Puts 877

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5125 C	5125 P	5175 C	5175 P	5225 C	5225 P	5275 C	5275 P	5325 C	5325 P	5375 C	5375 P	5425 C	5425 P	5475 C	5475 P
Feb	258½	91½	222½	105	187½	120	156	138½	127	159	102½	184	79½	210½	60½	241
Mar	329½	154½	287½	171	258½	191½	225½	208	195½	222	161½	242½	138½	268	117	296½
Apr	368½	188½	338½	206	306½	225	277½	245	250	268½	224	289½	198	314	176	340
Jun	479	260			415½	293½			355	329½			298½	370½		
Sept†	597½	323			537	358			485	401½			428	440½		

Calls 2,251 Puts 6,845 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997/98 High	1997/98 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	-	95	93½	Abbey Nat Dublin 8	93½		-	-	-	-
§140	F.P.	34.0	201½	148½	†BCO Techs	190½	-3	-	-	-	-
§65	F.P.	8.74	90	68	†Bond Intl Sftw	71½		W-	-	-	19.9
§25	F.P.	1.42	35½	29½	†General Inds	35½		-	-	-	-
135	F.P.	5.20	144½	139½	†Longmead	144½		L5.01	2.9	4.3	9.9
§110	F.P.	128.2	124½	105½	Marchpole	110	+1½	R3.65	2.1	4.1	14.6
§102	F.P.	23.2	102½	102½	†Razorback Vhcls	102½		-	-	-	-
§	F.P.	174.0	109	98½	Second Scot Natl	109	+1¾	-	-	-	12.7
§	F.P.	101.9	101½	99½	Do Zero Div Prf	101½		-	-	-	-
*	F.P.	3.31	113½	103½	Wyndham Mtr	103½		u4.5	7.8	5.4	2.9

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997/98 High	1997/98 Low	Stock	Closing price p	+or-
9	Nil	28/1.	3pm	¼pm	Calluna	1pm	

pm premium.

FTSE GOLD MINES INDEX

	Jan 16	% chg on day	Jan 15	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	1036.06	+4.7	989.86	1726.98	2.83	-	1907.49	891.23
■ Regional Indices								
Africa (15)	1080.52	+7.7	1003.64	1990.29	6.37	18.46	2333.55	921.78
Australasia (7)	1195.29	+5.8	1129.26	2009.36	2.86	15.83	2124.22	933.83
North America (12)	1010.67	+3.5	976.93	1619.90	1.27	37.59	1780.66	864.85

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jan 19	Day's chge%	Jan 16	Jan 15	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5273.6	+0.2	5263.1	5165.8	4194.0	3.08	2.55	2.07	19.65	1.45	2277.43
FTSE 250	4832.8	+0.4	4812.6	4816.3	4580.2	3.46	2.86	1.84	19.80	3.44	2047.81
FTSE 250 ex IT	4870.1	+0.4	4851.0	4858.7	4630.1	3.57	2.86	1.80	19.54	3.25	2070.79
FTSE 350	2527.9	+0.2	2521.9	2484.3	2062.0	3.15	2.61	2.02	19.64	0.80	2230.98
FTSE 350 ex IT	2532.4	+0.2	2526.4	2488.6	-	3.17	2.62	2.03	19.43	0.86	1146.22
FTSE 350 Higher Yield	[illegible]										
FTSE 350 Lower Yield	[illegible]										
FTSE SmallCap	[illegible]										
FTSE SmallCap ex IT	[illegible]										
FTSE All-Share	2467.54	[illegible]									
FTSE All-Share ex IT	[illegible]										

■ FTSE Actuaries Industry Sectors

	Jan 19	Day's chge%	Jan 16	Jan 15	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	[illegible]										
12 Extractive Industries(4)	[illegible]										
15 Oil, Integrated(4)	[illegible]										
16 Oil Exploration & Prod(13)	[illegible]										
20 GEN INDUSTRIALS(227)	[illegible]										
21 Construction(28)	[illegible]										
22 Building Matls & Merchs(27)	[illegible]										
23 Chemicals(25)	[illegible]										
24 Diversified Industrials(11)	[illegible]										
25 Electronic & Elect Equip(27)	[illegible]										
26 Engineering(63)	[illegible]										
27 Engineering, Vehicles(11)	[illegible]										
28 Paper, Pckg & Printing(24)	[illegible]										
30 CONSUMER GOODS(88)	[illegible]										
32 Alcoholic Beverages(6)	[illegible]										
33 Food Producers(24)	[illegible]										
34 Household Goods & Texts(24)	[illegible]										
36 Health Care(14)	[illegible]										
37 Pharmaceuticals(18)	[illegible]										
38 Tobacco(2)	[illegible]										
40 SERVICES(274)	[illegible]										
41 Distributors(28)	[illegible]										
42 Leisure & Hotels(27)	[illegible]										
43 Media(43)	[illegible]										
44 Retailers, Food(14)	[illegible]										
45 Retailers, General(43)	[illegible]										
46 Telecommunications(10)	[illegible]										
47 Breweries, Pubs & Rest.(24)	[illegible]										
48 Support Services(61)	[illegible]										
49 Transport(25)	[illegible]										
60 UTILITIES(22)	[illegible]										
62 Electricity(9)	[illegible]										
64 Gas Distribution(2)	[illegible]										
68 Water(12)	[illegible]										
69 NON-FINANCIALS(611)	[illegible]										
70 FINANCIALS(105)	[illegible]										
71 Banks, Retail(12)	[illegible]										
73 Insurance(17)	[illegible]										
74 Life Assurance(6)	[illegible]										
77 Other Financial(28)	[illegible]										
79 Property(40)	[illegible]										
80 INVESTMENT TRUSTS(118)	[illegible]										
89 FTSE All-Share(865)	[illegible]										
105 FTSE All-Share ex IT(783)	[illegible]										
Information Technology	[illegible]										
FTSE Fledgling	[illegible]										
FTSE Fledgling ex IT	[illegible]										
FTSE AIM	[illegible]										

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	5303.4	5289.1	5286.7	5268.4	5268.3	5278.3	5275.9	5265.9	5313.6	5265.7
FTSE 250	-	4826.8	4831.1	4824.3	4829.4	4829.5	4830.6	4831.8	4830.6	4835.6	4816.7
FTSE 350	-	2535.9	2533.8	2534.0	2526.5	2526.5	2529.5	2528.7	2526.0	2542.4	2524.5
FTSE SmallCap	2360.00	2361.36	2361.81	2361.83	2362.05	2362.14	2362.25	2362.46	2362.52	2362.57	2360.00
FTSE All-Share	-	2477.45	2472.88	2473.01	2465.33	2465.31	2468.99	2468.27	2464.84	2480.60	2464.42

Time of FTSE 100 Day's High: 8:47 AM Day's low: 12:50 PM. FTSE 100 1997 High: 5330.8 (03/10/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's High: 8:48 AM Day's low: 12:50 PM. FTSE All-Share 1997 High: 2462.41 (03/10/97) Low: 1985.75 (02/01/97)
Further information is available on http://www.ftse.com.
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† Sector P/E ratios greater than 80 are not shown.
‡ Values are negative. Annual review changes please see FTSE Intl webside ftse.com. Name Changes Anglo United now Falkland Islands (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol. 000s	Closing price	Day's change
3i†	424	535	-4
AMVESCAP†	251	485	-11
ASDA Group†	5,500	189½	-5½
Abbey National†	2,100	1180	+23
Airtours	195	1297½	-22½
Alliance & Leicester†	1,500	843	-6
Allied Domecq†	2,400	568	+21
Anglian Water	437	926½	+4½
Argos	[illegible]		
Arjo Wiggins	[illegible]		
Assoc. Brit. Foods†	[illegible]		
Assoc. Brit. Ports	[illegible]		
BAA†	[illegible]		
BAT Inds.†	[illegible]		
BBA	[illegible]		
BOC†	[illegible]		
BG†	[illegible]		
BP†	[illegible]		
BPB	[illegible]		
BSkyB†	[illegible]		
BT†	[illegible]		
BTR†	[illegible]		
Bank of Scotland†	[illegible]		
Barclays†	[illegible]		
Bass†	[illegible]		
Billiton†	[illegible]		
Blue Circle†	[illegible]		
Boots†	[illegible]		
Britannia	[illegible]		
Brit. Aerospace†	[illegible]		
British Airways†	[illegible]		
British Biotech	[illegible]		
British Borneo	[illegible]		
British Energy†	[illegible]		
British Land†	[illegible]		
British Steel†	[illegible]		
Burmah Castrol	[illegible]		
Burton	[illegible]		
Cable & Wire†	[illegible]		
Cadbury Schweppes†	[illegible]		
Caradon	[illegible]		
Carlton Comms.†	[illegible]		
Centrica†	[illegible]		
Comm. Union†	[illegible]		
Compass	[illegible]		
Cookson	[illegible]		
Courtaulds	[illegible]		
Daily Mail A	[illegible]		
Dixons	[illegible]		
Diageo†	[illegible]		
Electrocomps	[illegible]		
Energy Group†	[illegible]		
Enterprise Oil†	[illegible]		
Foreign & Col. I.T.	[illegible]		
Gallaher	[illegible]		
Gen. Accident†	[illegible]		
General Elect.†	[illegible]		
Glaxo Wellcome†	[illegible]		
Granada†	[illegible]		
GUS†	[illegible]		
Greenalls	[illegible]		
GRE†	[illegible]		
HSBC (75p shs)†	[illegible]		
Halifax†	[illegible]		
Hanson†	[illegible]		
Hays†	[illegible]		
Hillsdown	[illegible]		
ICI†	[illegible]		
Imperial Tobacco	[illegible]		
Kingfisher†	[illegible]		
Ladbroke†	[illegible]		
Land Securities†	[illegible]		
Legal & General†	[illegible]		
Lloyds TSB†	[illegible]		
Lucas Varity†	[illegible]		
MEPC†	[illegible]		
Marks & Spencer†	[illegible]		
National Grid†	[illegible]		
National Power†	[illegible]		
NatWest Bank†	[illegible]		
Next†	[illegible]		
Northern Foods	[illegible]		
Norwich Union†	[illegible]		
P & O†	[illegible]		
Pearson†	[illegible]		
PowerGen†	[illegible]		
Prudential†	[illegible]		
Railtrack†	[illegible]		
Rank Group†	[illegible]		
Reckitt & Colman†	[illegible]		
Reed Intl.†	[illegible]		
Rentokil Initial†	[illegible]		
Reuters†	[illegible]		
Rio Tinto†	[illegible]		
Rolls Royce†	[illegible]		
Royal & Sun Alliance†	[illegible]		
Royal Bk Scotland†	[illegible]		
Safeway†	[illegible]		
Sainsbury†	[illegible]		
Schroders†	[illegible]		
Scottish Power†	[illegible]		
Sears	[illegible]		
Severn Trent†	[illegible]		
Shell Transport†	[illegible]		
Siebe†	[illegible]		
SmithKline Bm.†	[illegible]		
Smiths Inds.†	[illegible]		
Stagecoach	[illegible]		
Standard Chartd.†	[illegible]		
Tate & Lyle	[illegible]		
Tesco†	[illegible]		
Thames Water†	[illegible]		
Tomkins†	[illegible]		
Unilever†	[illegible]		
United News & Media†	[illegible]		
United Utilities†	[illegible]		
Vodafone†	[illegible]		
Whitbread†	[illegible]		
Wolseley†	[illegible]		
Zeneca†	[illegible]		

Based on trading volume for a selection of major securities yesterday until 4.30pm. † Indicates a FTSE 100 index constituent or reserve. All totals are rounded. Source: Cabot, part of FT Information.

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jan 19 / Sch)

BELGIUM/LUXEMBOURG (Jan 19 / Frs.)

CZECH REP (Jan 19 / Koruna)

DENMARK (Jan 19 / Kr)

FINLAND (Jan 19 / Mks)

FRANCE (Jan 19 / Frs.)

GERMANY (Jan 19 / Dm.)

GREECE (Jan 19 / Drachma)

ITALY (Jan 19 / Lira)

NETHERLANDS (Jan 19 / Fls.)

NORWAY (Jan 19 / Kroner)

POLAND (Jan 19 / Zloty)

PORTUGAL (Jan 19 / Escudo)

SPAIN (Jan 19 / Pts.)

SWEDEN (Jan 19 / Kronor)

SWITZERLAND (Jan 19 / Frs.)

TURKEY (Jan 19 / TK Lira)

PACIFIC

JAPAN (Jan 19 / Yen)

HONG KONG (Jan 19 / H.K.$)

INDONESIA (Jan 19 / Rupiah)

MALAYSIA (Jan 19 / MYR)

NEW ZEALAND (Jan 19 / NZ $)

SINGAPORE (Jan 19 / S$)

AUSTRALIA (Jan 19 / Aust$)

SOUTH KOREA (Jan 19 / Won)

TAIWAN (Jan 19 / TW $)

THAILAND (Jan 19 / Baht)

AFRICA

SOUTH AFRICA (Jan 19 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jan 19 / Can $) 4 pm close

MONTREAL (Jan 19 / Can $) 4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JANUARY 16 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JANUARY 15 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	202.88	3.5	183.57	165.25	192.53	203.59	1.3	3.73	195.82	178.17	161.52	186.43	201.01	243.87	190.26	218.28
Austria (23)	184.09	0.2	166.73	150.10	174.87	174.73	0.0	1.90	183.67	167.11	151.50	174.85	174.71	213.59	175.14	187.71
Belgium (26)	256.36	1.5	232.19	209.02	243.51	238.38	1.3	2.89	252.57	229.80	208.33	240.45	235.23	263.33	227.73	231.72
Brazil (30)	216.37	3.5	195.97	176.41	205.53	446.03	3.4	1.85	209.12	190.27	172.49	199.08	431.50	322.44	184.94	205.75
Canada (121)	203.40	1.4	184.22	165.83	193.20	211.56	1.3	1.87	200.70	182.61	165.54	191.07	208.78	233.66	178.27	200.67
Denmark (32)	459.67	0.8	416.32	374.78	436.63	435.07	0.6	1.18	456.15	415.05	376.26	434.28	432.64	464.94	348.27	365.15
Finland (28)	286.01	0.3	259.04	233.19	271.67	331.42	-0.1	1.90	285.07	259.37	235.14	271.39	331.66	349.43	245.25	259.83
France (81)	233.01	1.7	211.04	189.98	221.33	223.87	1.4	2.41	229.17	208.51	189.03	218.17	220.49	246.23	209.81	215.68
Germany (58)	223.03	1.1	202.00	181.85	211.86	211.86	0.8	1.40	220.69	200.80	182.03	210.10	210.10	243.87	184.23	191.01
Hong Kong, China (66)	287.98	3.2	260.84	234.81	273.56	286.04	3.1	5.58	279.09	253.94	230.21	265.70	277.32	580.03	262.93	514.49
Indonesia (27)	43.25	12.1	39.17	35.26	41.08	232.17	9.6	2.90	38.59	35.11	31.83	36.74	211.86	254.90	29.44	236.46
Ireland (16)	416.68	0.0	377.39	339.73	395.80	424.72	-0.4	2.33	416.67	379.11	343.69	396.68	426.36	416.68	316.20	331.97
Italy (53)	126.01	1.5	114.13	102.74	119.69	169.35	1.5	1.45	124.15	112.96	102.40	118.19	166.78	126.01	83.01	94.67
Japan (481)	98.24	5.9	88.97	80.09	93.31	80.09	4.7	0.99	92.78	84.42	76.53	88.33	76.53	141.12	86.52	121.44
Malaysia (107)	138.29	5.6	125.25	112.75	131.35	223.17	2.7	3.25	130.94	119.14	108.00	124.66	217.34	660.85	113.56	611.87
Mexico (26)	1605.01	2.8	1453.67	1308.61	1524.58	14396.17	1.6	1.70	1560.77	1420.08	1287.38	1485.87	14126.07	1901.98	1319.05	1353.68
Netherlands (19)	406.28	1.4	367.97	331.25	385.92	381.76	1.2	2.20	400.47	364.37	330.32	381.25	377.07	440.67	326.45	334.79
New Zealand (14)	74.02	1.7	67.04	60.35	70.31	66.75	-0.3	4.63	72.79	66.23	60.04	69.30	66.97	96.47	71.49	85.40
Norway (38)	294.05	0.6	266.33	239.75	279.32	300.81	0.6	2.01	292.33	265.98	241.13	278.31	299.27	374.84	281.62	314.93
Philippines (22)	69.38	-1.2	62.84	56.57	65.91	143.15	-1.6	1.29	70.21	63.88	57.91	66.84	145.55	214.07	57.54	207.72
Singapore (42)	173.34	3.5	156.99	141.33	164.65	138.35	1.8	2.32	167.44	152.35	138.12	159.41	135.92	448.01	144.01	424.74
South Africa (43)	242.89	1.4	219.98	198.03	230.72	263.87	1.3	3.20	239.42	217.84	197.48	227.93	260.42	370.12	227.66	325.43
Spain (33)	284.78	2.1	257.93	232.19	270.51	334.05	1.9	2.08	279.00	253.85	230.13	265.61	327.91	284.78	206.12	226.80
Sweden (49)	462.03	1.1	418.46	376.70	438.87	548.36	1.1	1.89	456.80	415.62	376.79	434.88	542.51	539.94	405.00	432.49
Switzerland (31)	332.17	1.7	300.85	270.83	315.53	307.58	1.9	1.09	326.57	297.13	269.37	310.90	301.93	343.44	231.89	237.30
Thailand (39)	18.21	7.1	16.49	14.84	17.29	37.41	6.7	7.71	17.00	15.47	14.02	16.18	35.05	103.44	13.10	98.53
United Kingdom (212)	336.93	2.1	305.16	274.71	320.04	305.16	1.6	3.23	330.05	300.30	272.24	314.21	300.30	337.99	271.72	262.49
USA (639)	392.11	1.1	355.13	319.70	372.46	392.11	1.1	1.59	387.98	353.01	320.02	369.36	387.98	401.22	299.79	313.46
Americas (818)	355.10	1.1	321.62	289.52	337.30	298.82	1.1	1.61	351.19	319.53	289.67	334.33	296.55	365.75	274.59	287.35
Europe (699)	289.41	1.6	262.12	235.97	274.91	277.63	1.4	2.32	284.70	259.04	234.83	271.04	273.98	296.25	236.09	242.22
Nordic (147)	408.71	0.9	370.17	333.23	388.23	423.38	0.8	1.78	405.04	368.53	334.10	385.61	420.16	464.93	355.77	375.85
Pacific Basin (871)	105.57	5.4	95.61	86.07	100.28	87.42	4.1	1.68	100.18	91.15	82.63	95.37	83.95	158.99	95.32	142.38
Euro-Pacific (1570)	182.25	2.9	165.06	148.59	173.11	159.06	2.3	2.10	177.13	161.16	146.10	168.63	155.47	209.12	172.03	183.95
North America (760)	379.97	1.1	344.14	309.80	360.92	379.89	1.1	1.61	375.92	342.03	310.08	357.88	375.84	389.57	292.34	306.76
Europe Ex. UK (487)	257.80	1.4	233.49	210.19	244.88	256.06	1.3	1.79	254.23	231.31	209.70	242.03	252.63	267.07	210.93	215.56
Pacific Ex. Japan (390)	177.28	3.5	160.57	144.54	168.40	179.91	2.2	4.34	171.26	155.83	141.27	163.06	176.09	320.65	161.31	317.87
World Ex. US (1790)	185.24	2.8	167.78	151.03	175.96	184.97	2.3	2.10	180.19	163.95	148.63	171.54	181.33	212.89	175.30	187.07
World Ex. UK (2217)	243.87	1.9	220.88	198.83	231.65	223.09	1.6	1.67	239.38	217.79	197.44	227.88	219.48	262.69	211.16	221.89
World Ex. Japan (1948)	328.66	1.4	297.67	267.97	312.19	324.66	1.2	1.95	324.18	294.96	267.40	308.62	320.68	344.35	271.90	261.38
The World Index (2429)	251.74	1.9	228.00	205.25	239.12	230.47	1.6	1.84	247.03	224.77	203.76	235.18	228.75	268.47	216.61	227.05

 PLEASE NOTE: Amendments to indices 15/1/98 & 16/1/98 applied to Mexico, related regional indices and The World Index. Market closed 19/1/98: USA.

Emerging markets: IFC Investable indices

Jan16-closed Jan19

NEW YORK STOCK EXCHANGE PRICES

1997/98 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
- A -										
[illegible]										
- B -										
[illegible]										
- C -										
[illegible]										
- D -										
[illegible]										
- E -										
[illegible]										
- F -										
[illegible]										
- G -										
[illegible]										
- H -										
[illegible]										
- I -										
[illegible]										
- J -										
[illegible]										
- K -										
[illegible]										
- L -										
[illegible]										
- M -										
[illegible]										
- N -										
[illegible]										
- O -										
[illegible]										
- P - Q -										
[illegible]										
- R -										
[illegible]										
- S -										
[illegible]										
- T -										
[illegible]										
- U -										
[illegible]										
- V -										
[illegible]										
- W -										
[illegible]										
- X - Y - Z -										
[illegible]										

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. pb-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 16	Jan 15	Jan 14	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	7753.55	7691.77	7784.69	8259.31 (6/8/97)	6391.69 (11/4/97)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	105.27	105.48	105.16	105.48 (15/1/98)	101.08 (14/4/97)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3289.55	3228.65	3229.41	3359.27 (15/10/97)	2222.07 (2/1/97)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	264.58	264.47	266.25	272.01 (30/12/97)	209.47 (25/4/97)	272.01 (30/12/97)	10.53 (8/7/32)

DJ Ind. Day's high 7846.47 (7803.87) Low 7687.04 (7651.66) (Theoretical†)
Day's high 7803.12 (7783.94) Low 7698.01 (7686.54) (Actual†)

Standard and Poors	Jan 16	Jan 15	Jan 14	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Composite‡	961.51	950.73	957.94	983.79 (5/12/97)	737.01 (2/1/97)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials¶	1119.42	1105.90	1114.30	1148.82 (7/10/97)	865.42 (11/4/97)	1148.82 (12/12/97)	3.52 (30/6/32)
Financial¶	114.81	113.29	114.11	120.83 (6/12/97)	80.75 (2/1/97)	120.83 (6/12/97)	7.13 (4/9/74)
Others							
NYSE Comp.	503.67	497.95	501.35	514.31 (5/12/97)	389.47 (11/4/97)	514.31 (5/12/97)	4.64 (25/4/42)
Amex Comp	663.89	655.54	658.64	721.90 (7/10/97)	541.20 (25/4/97)	721.90 (7/10/97)	524.20 (16/7/96)
NASDAQ Comp	1562.88	1547.06	1548.78	1745.85 (9/10/97)	1201.00 (2/4/97)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	426.25	421.75	421.93	465.21 (13/10/97)	335.85 (25/4/97)	465.21 (13/10/97)	123.36 (7/12/93)

RATIOS

	Jan 16	Jan 9	Jan 2	Year ago
Dow Jones Ind. Div. Yield	1.77	1.81	1.72	1.85
	Jan 14	Jan 7	Dec 31	Year ago
S & P Ind. Div. yield	1.50	1.49	1.49	1.85
S & P Ind. P/E ratio	25.88	25.98	26.04	23.00

US DATA

MARKET ACTIVITY

Volume (million)	Jan 16	Jan 15	Jan 14
NYSE	670.080	624.734	607.660
Amex	29.889	21.135	22.582
NASDAQ	707.859	608.241	700.379

NYSE	Jan 16	Jan 15	Jan 14
Issues Traded	3,453	3,424	3,425
Rises	2,131	1,316	1,867
Falls	819	1,586	1,081
Unchanged	503	522	497
New Highs	171	115	136
New Lows	30	52	36

NYSE TRADING ACTIVITY — Volume : 670,080,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Boeing	8,782,200	43¾	-¾
Micron Tech	7,276,900	28¾	-2⅞
Ph Morris	5,526,800	45¼	+⅛
Compaq	5,248,300	59⅛	+1
Gen Elect	4,426,300	73½	+⅞
AT & T	4,238,000	65¼	+½
Stat Casino	3,654,600	15⅛	+4⅛
Chrysler Cp	3,518,500	35	+1⅛
Tel Brasiel	3,384,700	105¼	+4⅛
IBM	3,391,200	105	+1½

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Stat Casino	15⅛	+4⅛	+38.8
Harrahs Ent	21½	+2⅛	+11.8
Blount B	25¾	+2¼	+9
Boston Scien	46⅛	+3⅞	+8.9
Downs			
Amer Readers	10¼	-3⅞	-28.5
Micron Tech	28¾	-2⅞	-8.8
Briggs Strat	44½	-2⅞	-5.7
Com Newsp	65¼	-3¼	-4.9

NASDAQ TRADING ACTIVITY — Volume :707,859,000

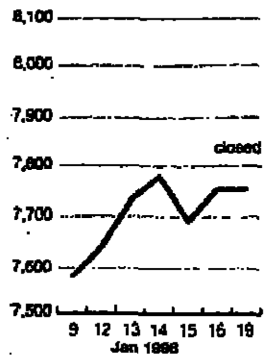
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Sun Microsys	18,898,000	45¼	+2⅛
Corp Express	14,612,900	9¾	+1¾
Intel Corp	14,588,900	74⅞	-½
Nordstrom	12,008,000	44⅞	-4¾
Oracle Corp	11,803,800	18⅛	+⅛
Applied Matrl	10,435,800	29¾	-⅛
Ascend Com	10,110,700	30⅛	+1¾
Worldcom	9,778,500	31⅛	+⅝
Microsoft	8,899,800	135¼	+2⅞
Microchip Tch	8,336,800	21½	-5½

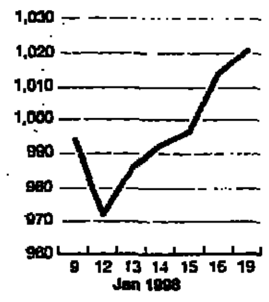
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Milestone Sc	22½	+3¾	+20
Crescent Oper	22½	+3⅛	+17.3
Dreste	25½	+3¼	+14.4
Arrow Intl	37½	+4¼	+12.8
Downs			
Homecm Com	7⅞	-5⅞	-43.1
Intelliquest	9¼	-4	-30.2
Microchip Tch	21½	-5¾	-21.2
Storno Bk Cf	45½	-6¼	-11.8

Dow Jones



FTSE Eurotop 300



JAPAN

FRANCE

GERMANY

UK

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	955.00	968.40	+13.30	972.50	952.50	87,575	379,810
Jun	974.50	978.10	+13.60	982.70	972.50	92	10,311
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Mar	15400.0	16050.0	+910.0	16130.0	15380.0	38,471	174,081
Jun	15500.0	15980.0	+900.0	15980.0	15500.0	13	31,450

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	3015.0	2987.0	+2.0	3026.0	2987.0	14,742	40,511
Feb	3021.0	2995.0	+2.0	3030.0	3005.5	3,294	4,608
DAX							
Mar	4281.0	4313.0	+65.0	4328.5	4272.5	17,480	68,256
Jun	4303.0	4341.0	+78.5	4354.0	4303.0	33	11,353

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	2419.50	2420.00	-29.00	2431.00	2416.00	8,668	20,036
Feb	2430.00	2426.75	+24.75	2441.00	2426.75	4,259	9,059
SOFFEX							
Feb	6340.1	6349.0	+59.0	6374.0	6325.0	2,810	19,565
Mar	6340.0	6353.1	+95.2	6940.0	6340.0	36	533

Open interest figures for previous day

WORLD MARKETS AT A GLANCE

Country	Index	Jan 19	Jan 16	Jan 15	1997/98 High	1997/98 Low	Yield	P/E
Argentina	General	21201.96	21201.96	20793.22	25771.79 22/10/97	18237.40 2/1/97	3.07	18.2
Australia	All Ordinaries	2650.7	2614.0	2584.5	2779.20 25/9/97	2298.20 28/10/97	3.41	19.2
	All Mining	583.8	570.2	558.6	987.10 24/2/97	541.19 27/11/97		

Surging Asian markets boosted sentiment. WMC bounced 10.3 per cent on the back of rising commodity prices.

Country	Index	Jan 19	Jan 16	Jan 15	1997/98 High	1997/98 Low	Yield	P/E
Austria	Credit Aktien	448.22	440.96	441.42	474.42 2/10/97	374.40 9/1/97	2.04	13.5
	Traded Index	1268.44	1264.32	1266.86	1488.49 31/7/97	1130.22 9/1/97		
Hungary	Bux	7623.21	7639.04	7537.97	8483.80 6/8/97	4291.30 6/1/97	na	na

Shares advanced in brisk trade. Gainers led losers by almost four to one.

Country	Index	Jan 19	Jan 16	Jan 15	1997/98 High	1997/98 Low	Yield	P/E
India	BSE Sens.	3480.86	3382.32	3365.75	4548.02 5/8/97	3225.24 2/1/97		
	Crisil 500	641.55	628.93	625.26	843.28 5/8/97	615.29 12/12/97	na	na

Shares rose after rupee moved up strongly in the foreign exchanges.

Country	Index	Jan 19	Jan 16	Jan 15	1997/98 High	1997/98 Low	Yield	P/E
Indonesia	Jakarta Comp.	439.02	413.92	387.24	740.83 8/7/97	339.53 15/12/97	2.54	13.5

News of the planned merger of 5 local banks and strong regional markets encouraged active buying.

Country	Index	Jan 19	Jan 16	Jan 15	1997/98 High	1997/98 Low	Yield	P/E
Poland	WIG	14048.1	13637.6	13457.2	18339.40 18/2/97	13228.80 12/1/98	0.94	13.6

Shares gained as Zywiec surged 10 per cent on Heineken plans to lift stake.

Country	Index	Jan 19	Jan 16	Jan 15	1997/98 High	1997/98 Low	Yield	P/E
Portugal	BVL 30	4065.00	4031.97	3999.86	4065.80 19/1/98	2165.57 2/1/97	1.1	38.1
	PSI 20	9472.62	9394.48	9324.56	9472.62 19/1/98	5152.34 2/1/97		
Russia	RTS	339.47	334.54	329.82	571.66 6/10/97	213.38 6/1/97	na	na

Oil group Yukos bounced 8 per cent on merger news as overall market advanced strongly.

NASDAQ NATIONAL MARKET

Jan16-closed Jan19

NASDAQ NATIONAL MARKET

AMEX PRICES

Jan16-closed Jan19

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Asia works hard on Wall Street holiday

WORLD OVERVIEW

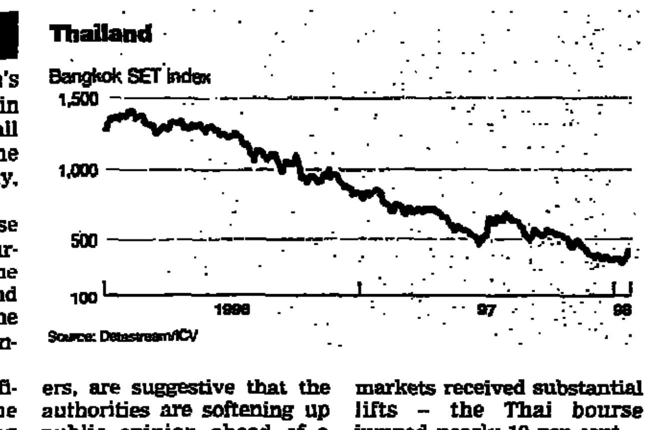
A rally across most of Asia's stock markets was the main feature of a day when Wall Street was closed for the Martin Luther King holiday, *writes Philip Coggan*.

Talk that the Japanese government would take further steps to stimulate the economy caused a rebound in the yen and allowed the *Nikkei 225 average to continue* its recent rally.

"The frankness of the official disclosure as to the amount of non-performing bank assets, at Y80,000bn or 15.7 per cent of GDP, and the move to legislate for potential use of emergency powers, are suggestive that the authorities are softening up public opinion ahead of a major policy shift," says Joe Rooney, global strategist at Lehman Brothers.

Some of the smaller Asian markets received substantial lifts – the Thai bourse jumped nearly 10 per cent – amid signs that investors were sensing that share prices may be close to the bottom. Analysts reported there had been some buying from regional mutual funds, which were putting some of their cash balances back into the market.

Thailand



Source: Datastream/ICV

But the Goldman Sachs strategy team sounds a warning note, based on the analysis of economist Paul Krugman. Professor Krugman argues that the Asian banking sector was believed to be subject to implicit *guarantees and were subject* to lax regulation; this prompted them to engage in risky *lending projects*.

As a result of this, asset prices rose to levels not justified by economic fundamentals, and total investment in the economy was higher than optimal. But the crisis caused the market to reassess the validity of the implied guarantees to the banking sector, with the result that asset prices fell back towards the level justified by fundamentals.

The implications of this analysis, according to Goldman, are that the problems of Asia are not subject to a quick fix and that domestic *asset prices will not snap* back rapidly to their previous levels.

What are needed are measures to repair the balance sheet weaknesses of the corporate and banking sectors.

Whatever the long-term prospects for the Asian markets, European investors took the opportunity of the short-term rally to push share prices further ahead.

While the dollar dropped against the yen, it managed to firm slightly against the D-Mark, *giving a boost to the* prospects of German exporters. The Dax index in Frankfurt gained 1.6 per cent on the day, while the Italian market briefly reached an all-time *high before* succumbing to profit-taking.

With Wall Street closed, European markets failed to maintain the impetus from Asia and shed some of their gains in afternoon trading.

London market, Page 30

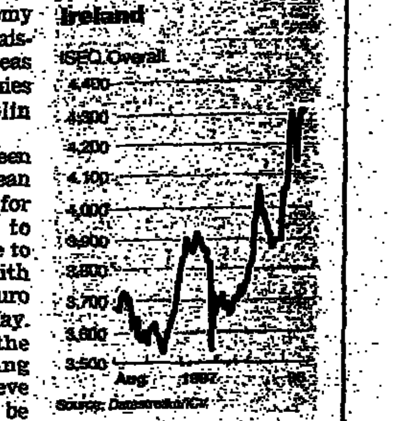
MARKET FOCUS

Dublin's flying start to 1998

A strong domestic economy and a falling currency raising the value of overseas earnings of Irish companies are driving the *Dublin* stock market.

The Irish punt has been at the *top of the European* monetary system grid for some time, leading to expectations it may have to be revalued in line with market rates when the euro cross-rates are set in May. But in recent weeks the punt has been falling steadily, and many believe a revaluation will not be necessary after all.

Ireland



Source: Datastream/ICV

With public finances under control, corporation tax reduced, and interest rate cuts likely as Irish *short rates converge with* those of its European partners ahead of the single currency, Dublin has got off to a flying start in 1998, with the Iseq index up 12 per cent since the start of December.

"Even if the US market was to do nothing in 1998, the index is still on target to reach 4,600 by the year end," says John Conroy, *head of equity research at* NCB, Ulster Bank's broking arm. Its current level is around 4,300.

The main beneficiaries of the fall in the punt have been food and engineering companies selling to the UK. Large companies with overseas operations should also see a lift.

The market is still basking in the rays of the December budget. The cut in corporate tax rates will give an immediate fillip to earnings per *share* – *if not* headline profits. The decision to halve capital gains *tax will provide an extra* incentive for investors.

After better-than-expected results from Fyffes, the banana company which has an October year end, the results season is set to produce a spate of strong numbers, starting with the banks in March.

In its weekly comment, Davy, the Dublin brokerage, concedes: "Our year *forecasts are beginning to* look somewhat conservative." The advice is still to *buy companies with Irish* exposure.

Foreign institutions, which own slightly less than 40 per cent of Irish companies, are starting to look at the second-line industrials. Jones Group, the Dublin property company, has been a recent favourite. *Irish Continental* Group, the *shipping* company, offers a more striking *play on the Irish economy.*

The technical position of the market is also strong. Davy says institutional cash *flow* is "rising strongly when government borrowing has been all but eliminated and corporate demand has been low".

Although the advent of the euro might lead many European investors to diversify, local institutions are in no hurry to run down their Irish investments. "It will happen over *time. But there is a reluctance* to sell the market. It's more likely as institu*tions look to new investments*," says Mr Conroy.

As if to underline the market's confidence, Tom Healy, managing director of the stock exchange, announced yesterday that 10 new companies were expected to list in 1998.

John Murray Brown

Frankfurt boosted by strength of dollar

EUROPE

The strong dollar and more positive signals from Asia boosted **FRANKFURT** and the Xetra Dax index finished *73.81 higher at 4,290.05.*

In the strongly performing insurance sector, Munich Re, *a Dax stock with little exposure* to Asia, picked up DM36.40 at DM676 on the back of a buy-recommendation from Merrill Lynch. Allianz added to recent gains with a rise of DM14 which took it to a record close of DM514.

Mannesmann was up DM38.20 at DM1,000 on news that its large-diameter pipe business would be bundled into Europipe, in a joint venture with British Steel and Dillinger-Werke.

The strong dollar fuelled rises in leading exporters. Siemens finished DM3.85 higher at DM107.95 while among the motor stocks, VW rose DM19.50 to DM1,010.

However, Daimler Benz eased 50 pfg to DM125 on reports that its micro-compact Smart car may have steering problems.

ProSieben rose DM3.50 to DM89 on speculation that it would replace PWA in the MDAX when the stock exchange meets to decide the new make-up of the index today.

PARIS pared early gains *to close just short of the* day's low. Renewed weakness among banks countered *strong gains among dollar* stocks and the CAC 40 ended up 10.86 at 2,986.95.

Paribas, buoyed lately by takeover talk, came off FFr15.00 at FFr528 and BNP shed FFr2.40 to FFr291.4 as concern about Asian lending continued to dog sentiment after a number of French banks were put on credit watch by Moody's.

There was no shortage of buyers among dollar stocks, however. In spite of significant Asian connections, *LVMH rose FFr45.00 to* FFr1,020 and Saint Gobain put on FFr19.00 at FFr816. SGS-Thomson was also in the thick of the action, rising FFr11.10 to FFr372 ahead of *this week's results statement*.

Rémy Cointreau bounced FFr4.50 or 4.7 per cent to FFr100.5 as bid hopes revived following an upsurge in interest in the sector on the news that Allied Domecq of the UK had received an approach for its spirits business.

AMSTERDAM saw speculative buying in a number of stocks with talk of imminent corporate activity lifting KNP BT and Bolswessanen. The AEX index ended 11.81 *higher at 949.86.*

Packaging leader KNP BT jumped Fl 3.30 to Fl 49.50 for *a two-day gain of 12.5 per* cent as rumours of a "strate*gic move*" ran round the market. At Bolswessanen, up 90 cents at Fl 32.40, speculation centred on the disposal of the group's drinks arm.

Publisher were active. Elsivier traded 7.4m shares and rose Fl 1.00 to Fl 35.70 while Wolters Kluwer gained Fl 11.60 4.2 per cent to Fl 289.90.

Baby foods leader Numinco ran into salmo*nella worries at an Irish* plant and fell 70 cents to Fl 64.80.

ZURICH *was led higher* by the performance of dollar-sensitive stocks and the SMI *index finished 86.4 higher at* 6,340.4. Ciba Specialty Chemicals outperformed with a rise of SFr3.75 at SFr172.50 on news that it was considering a friendly takeover of British Allied Colloids. Clariant, its rival, picked up SFr43 at SFr1,310.

Strong performances were also seen from Novartis and Nestlé which, along with Ciba, report 1997 sales figures this week. Novartis rose *SFr25 to SFr2,426* and Nestlé SFr45 at SFr2,254.

MILAN tested fresh record *highs early on, fuelled by* positive news about Italy's Emu ambitions. However, *the rally fizzled out and the* Mibtel index finished 94 lower at 18,274.

Olivetti gained L59 to L1,416 as the group's capital increase got underway. Analysts attributed the stock's strength to the continuing appetite of cash-rich institutions for new equity issues and the desirability of slimmed-down Olivetti's mobile phone subsidiary, Omnitel.

MADRID ended at an all-time high for the third successive session, helped by the positive tone elsewhere in Europe, but the market's gains were modest. The general index finished 1.45 higher at 675.56.

Banks were again the main feature. Banesto gained Pta35 to Pta1,660 ahead of its results tomorrow. Argentaria gained Pta120 to Pta9,570 ahead of its privatisation offering, which kicks off this month.

LISBON rose in line with its Spanish neighbour as it continued its advance into unknown territory. The PSI 20 index rose 78.14 to 9,472.62. Banking shares, which have been driving the market in recent weeks, again did well. Banco ESSI gained Es641 to an all-time record of Es4,140 and BPI *gained Es100 to Es4,960.*

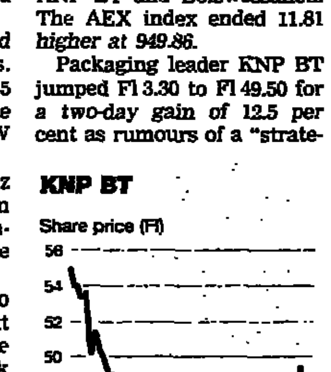
BUDAPEST gained almost 2.5 per cent as investors moved into buying mode, encouraged by rises in Asian markets and a stronger dollar. The Bux index closed 184.17 at 7,823.21.

FTSE Actuaries Share Indices — European series

January 19 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	1021.57	+0.77	+7.83	2.20	0.02	1029.62
FTSE Eurotop 100	2355.62	+0.89	+20.81	-	-	-
FTSE Eurotop 300 Regions						
300 UK	1044.05	+0.81	+8.39	3.08	0.07	1061.99
300 Ex-UK	1009.34	+0.75	+7.50	1.70	0.00	1012.21
300 Eurobloc	989.21	+0.89	+8.74	1.91	0.00	993.42
300 Ex-Eurobloc	1047.22	+0.69	+7.19	2.40	0.04	1058.49
FTSE Eurotop 300 Economic Groups						
Resources	910.17	–0.24	–2.20	3.02	0.00	923.35
General Industries	925.43	+0.92	+8.47	2.12	0.00	927.74
Consumer Goods	1042.55	+2.22	+22.69	1.76	0.00	1053.80
Services	1007.40	+0.48	+4.81	2.25	0.00	1016.08
Utilities	1108.81	–0.19	–2.14	2.56	0.18	1123.56
Financials	1098.52	+0.50	+5.44	2.12	0.02	1104.88

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1998. All rights reserved.

KNP BT



Source: Datastream/ICV

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and Peter Hall.

Toronto rises but activity subdued

AMERICAS

Toronto put in a firm performance at midsession although activity was subdued by Wall Street's closure for the Martin Luther *King national holiday*.

The TSE-300 composite index was 32.42 higher by *midday at 6,436.87, but* volume was just 16.7m shares.

Analysts noted that a dip *in golds and precious minerals* tempered the gains as profits were taken after last week's 14.7 per cent gains by the sector.

● In Latin America, SAO PAULO opened in an upbeat mood, boosted by the rally on Asian markets. The Bovespa index gained 262 to 9,710 in the morning session, although trading was thin, with Wall Street closed.

Blue chips led the rally, with Telebras gaining *R$3.20 to R$121.20*. Mining giant CVRD rose by 4.3 per cent to R$21.90. Power util*ity Electrobras was* R$2.30 better at R$53.10.

MEXICO CITY extended *Friday's rally, with the IPC* index gaining 58.79, or 1.3 per cent, to 4,730.03 by mid*session. This extended the* index's gains to more than 3 per cent since Thursday.

BUENOS AIRES also gained ground, but with less conviction than its neighbours. In the morning session, the Merval index rose 4.33, or 0.7 per cent, to 618.75, extending Friday's 2.3 per cent advance.

SANTIAGO rose by 1.4 per cent by late morning, recovering all of last week's losses.

The SASE index was 1.2 higher at 90.2. Dealers said that volumes were very low due to Wall Street's holiday.

SOUTH AFRICA

Johannesburg took its lead from rebounding Asian mar*kets and the overall index* picked up 69.1 at 5,937.9.

Industrials rose 103.4 or *1.5 per cent to 7,073.8* while golds, hit by a weaker bullion price, fell 19.7 or 2.4 per cent to 787.8.

Mining house JCI jumped R1.75 to R21.50 ahead of today's scheduled announce*ment of its gold results for* the quarter ended December 31.

South African Breweries rose R2.20 to R114.

Tokyo advances again ahead of stimulus package

TOKYO pushed higher for the fourth successive trading day as investors scrambled to protect themselves from the possibility that the government was planning new stimulus measures, *writes Gillian Tett in Tokyo*.

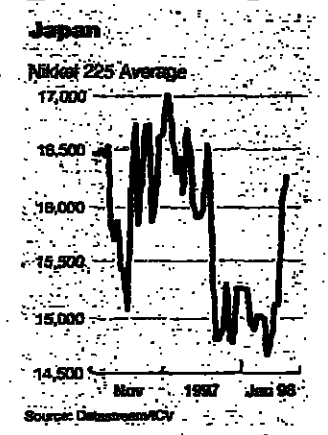
The Nikkei 225 rose 215.59 or 1.3 per cent to 16,262.04 for a four-day gain of more than 11 per cent. Turnover was again relatively heavy at 680m shares, compared with 692m on Friday. The broadly based Topix index rose 2.5 per cent to 1,231.46.

Analysts said the surge was partly triggered by hints over the weekend that the government is considering new measures to help the economy if serious signs of a downturn emerge.

The market was also boosted by signs that the *government was moving* closer to using public funds to help ailing banks. Some banks, like Bank of Tokyo Mitsubishi, Sanwa and Yokohama, have indicated they would agree to issue preference shares or subordinated bonds as part of a recapitalisation scheme.

These hopes helped raise the market to an intra-day high of 16,461.44 in the morning. Construction and banking stocks rose particularly sharply, largely due to hopes of fresh government assistance. The market later fell back, and some traders warned it could remain capped at this level while doubts remain about the scale of any package. They warned the measures had to be passed by parliament.

Japan



Source: Datastream/ICV

Construction and banks were among the best performing sectors. News of the arrest of two former executives sent Nomura Securities down Y30 to Y7,720.

The Osaka stock exchange closed at 15,912.58, up 454.17.

Bangkok leaps as baht steadies

ASIA PACIFIC

Foreign buyers tightened their grip on **BANGKOK**. Turnover surged to Bt7.2bn and *shares racked up their* best ever single-session gain, advancing 9.9 per cent as the baht steadied in the foreign exchanges.

By the close of trading, the SET index had risen 37.71 to 420.72 for a two-day gain of more than 15 per cent. The index is now almost 70 per cent above the 264.20 low touched on December 24.

Banks continued to lead the upturn, rising 16.6 per cent. Bangkok Bank was the day's busiest share, gaining Bt11 to Bt79.50.

KUALA LUMPUR surged ahead as foreign funds homed in on index constituents. The composite index picked up 49.11 to 589.08 in volume that rose to a heavy 585m shares.

Dealers said the buying *spree was triggered by a rise* in Malaysia's ringgit and comments from Michel Cam*dessus, the International* Monetary Fund chief, on Friday that Malaysia was not in *need of IMF help*.

The upbeat mood spilled over to **SINGAPORE**, in spite of a rise in prime rates over the weekend which might have been expected to cool sentiment. The Straits Times Industrials index fin*ished 81.92 higher at 1,327.18*, as bargain-hunters chased blue chip and Malaysian stocks, traded over the counter, which accounted for 70 per cent of total volumes. *Volume was* unusually heavy for a Monday at 796m lots.

CHANGES ON THE DAY

	% change
Bangkok	+9.9
Hong Kong	+5.6
Jakarta	+6.1
Kuala Lumpur	+9.1
Manila	+5.7
Seoul	+6.6
Singapore	+6.6
Sydney	+1.4
Taipei	-0.6
Tokyo	+1.3
Wellington	+1.3

SEOUL was spurred ahead by foreign buying and rising optimism about the outcome *of talks about South Korea's* foreign short-term debt.

European and regional *mutual funds were seen in* the market, although brokers said this was largely to restore themseleves to a neutral weighting from their underweight position.

However, their presence helped local investors put a positive gloss on the country's debt talks, due to resume in New York tomorrow. *A favourable outcome* would ease fears about the health of the financial sector and could persuade credit agencies to upgrade the country's credit rating.

The composite index gained 32.86 to 528.77.

JAKARTA followed the regional trend, with buying focused on the banking sector. Analysts said investors were betting that anticipated banking reforms would prompt a spate of mergers. The composite index closed 25.11 higher at 439.03.

Investors' hopes were triggered by news that Bank Internasional Indonesia had signed a memorandum of understanding to merge with *four other institutions*, including Bank BDNI and Bank Tiara. Tiara ended *Rp125, or 63 per cent*, upat Rp325. BDNI opened 33 per cent higher at Rp400 before *coming off to close Rp25 better* at Rp325. BII was unchanged at Rp500.

MANILA moved sharply higher on the strength of the peso and the composite index finished 95.26 ahead at 1,771.89, off a peak of 1,791.31. Property stocks posted the best gains, with the sector's index rising 6.2 per cent *on expectations of* softer rates after the rise of the peso.

HONG KONG was higher as investors took heart from easing interbank rates, which some took to be evidence of a respite from selling pressure on the Hong Kong dollar.

The Hang Seng Index closed 500.38 higher at 9,400.42. The firmer trend in other Asian markets, driven partly by guarded optimism that South Korea may be starting to turn the corner in its economic crisis, also helped Hong Kong higher.

Measures aimed at addressing the huge overhang of debt in China's banking system, which were announced on Friday by the central bank in Beijing, underpinned sentiment.

SHANGHAI's hard currency B shares rose 3.316 or 7 per cent to 47.938. Brokers said this was largely a reflection of Hong Kong's rise.